

REVIEW OF ISSUES RELATING TO THE STATE OF THE RURAL ECONOMY

HEARING BEFORE THE SUBCOMMITTEE ON ANTITRUST AND RESTRAINT OF TRADE ACTIVITIES AFFECTING SMALL BUSINESS OF THE COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES NINETY-NINTH CONGRESS SECOND SESSION

MARSHALL, MN, APRIL 11, 1986

Printed for the use of the Committee on Small Business



U.S. GOVERNMENT PRINTING OFFICE

63-717 O

WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H721-8

COMMITTEE ON SMALL BUSINESS

PARREN J. MITCHELL, Maryland, *Chairman*

NEAL SMITH, Iowa
HENRY B. GONZALEZ, Texas
JOHN J. LaFALCE, New York
BERKLEY BEDELL, Iowa
HENRY J. NOWAK, New York
THOMAS A. LUKEN, Ohio
IKE SKELTON, Missouri
CHARLES W. STENHOLM, Texas
ROMANO L. MAZZOLI, Kentucky
NICHOLAS MAVROULES, Massachusetts
CHARLES HATCHER, Georgia
RON WYDEN, Oregon
DENNIS E. ECKART, Ohio
GUS SAVAGE, Illinois
BUDDY ROEMER, Louisiana
NORMAN SISISKY, Virginia
ESTEBAN EDWARD TORRES, California
JIM COOPER, Tennessee
JIM OLIN, Virginia
RICHARD RAY, Georgia
CHARLES A. HAYES, Illinois
CATHY (MRS. GILLIS) LONG, Louisiana
JIM CHAPMAN, Texas
TOMMY F. ROBINSON, Arkansas

JOSEPH M. McDADE, Pennsylvania
SILVIO O. CONTE, Massachusetts
WILLIAM S. BROOMFIELD, Michigan
ANDY IRELAND, Florida
JOHN HILER, Indiana
VIN WEBER, Minnesota
DAVID DREIER, California
D. FRENCH SLAUGHTER, Jr., Virginia
JIM KOLBE, Arizona
WILLIAM W. COBEY, Jr., North Carolina
ROBERT C. SMITH, New Hampshire
HOWARD COBLE, North Carolina
JOSEPH J. DiOGUARDI, New York
JAN MEYERS, Kansas
DEAN A. GALLO, New Jersey
J. ALEX McMILLAN, North Carolina
STEWART B. McKINNEY, Connecticut
LARRY COMBEST, Texas

MAJOR L. CLARK III, *Staff Director*
THOMAS G. POWERS, *General Counsel*
LOIS LIBERTY, *Publications Specialist*
CHRISTINE A. RUSSELL, *Minority Staff Director*

SUBCOMMITTEE ON ANTITRUST AND RESTRAINT OF TRADE ACTIVITIES AFFECTING SMALL BUSINESS

CHARLES HATCHER, Georgia, *Chairman*

HENRY B. GONZALEZ, Texas
RICHARD RAY, Georgia

VIN WEBER, Minnesota
D. FRENCH SLAUGHTER, Jr., Virginia

BRENDA O'CONNOR, *Subcommittee Staff Director*
DAVID K. REHR, *Minority Subcommittee Professional Staff Member*

CONTENTS

Hearing held on April 11, 1986	Page 1
Opening statements of:	
Hatcher, Hon. Charles, chairman, Subcommittee on Antitrust and Restraint of Trade Activities Affecting Small Business	1
Ray, Hon. Richard, a Representative in Congress from the State of Georgia	9
Weber, Hon. Vin, a Representative in Congress from the State of Minne- sota	4
Testimony of:	
Anderson, Tom, Anderson Furniture Store, Alexandria, MN	24
Carruthers, Bob, president, Southwest State University, Marshall, MN	9
Devos, Peggy, Our Own Pork Pantry, Ghent, MN	58
Frazeur, Curt, farmer, Canby, MN	21
Hatch, Michael A., State commerce commissioner, St. Paul, MN	27
Olsen, Robert E., cattleman, Canby, MN	10
Onken, Lyle, farmer, Balaton, MN	55
Raguse, Steve, farmer, Wheaton, MN	69
Surdy, Ted, Southwest State University, Science and Technology Re- source Center, Marshall, MN	62
Tourville, Tori, executive director, Marshall Chamber of Commerce, Marshall, MN	65
Vickerman, Barbara, the Wishing Well, Redwood Falls, MN	17
Voudrie, Al, comptroller, Minnesota Corn Processors, Marshall, MN	64
Additional material supplied for the hearing record:	
Hatch, Michael A., State commerce commissioner, St. Paul, MN: Attach- ments to testimony	30
Olsen, Robert E., cattleman, Canby, MN: Prepared statement	15

APPENDIX

Miscellaneous statements pertaining to rural economy	73
--	----

REVIEW OF ISSUES RELATING TO THE STATE OF THE RURAL ECONOMY

FRIDAY, APRIL 11, 1986

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ANTITRUST AND RESTRAINT OF
TRADE ACTIVITIES AFFECTING SMALL BUSINESS,
COMMITTEE ON SMALL BUSINESS,
Marshall, MN.

The subcommittee met, pursuant to notice, at 1:15 p.m., in the Lecture Center, room 201, Southwest State University, Marshall, MN, Hon. Charles Hatcher (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN HATCHER

Mr. HATCHER. The hearing will come to order, please.

Good afternoon. I would like to introduce myself to you. I am Charles Hatcher, and I am the U.S. Representative from Georgia's Second Congressional District.

I serve on the House Small Business Committee, and I chair the committee's Subcommittee on Antitrust and Restraint of Trade Activities Affecting Small Business, which is the subcommittee that is holding this hearing here in Marshall today.

Other members of the subcommittee here today are Congressman Richard Ray, who is also from Georgia; and your own Representative from this area, Congressman Vin Weber, on my left. Vin is certainly a valued member of the Small Business Committee, and I am glad I have had a chance to serve with him on this subcommittee. I want to take this chance, also, to thank Congressman Weber's staff for all of their work in coordinating this hearing. Everybody in Marshall has really gone out of their way to make us feel welcome, and we want you to know that we appreciate everything you have done.

We also have some subcommittee staff with us here today. Maybe they are out of the room right now. Brenda O'Connor is the young lady who is the director of the subcommittee staff, and David Rehr, who is the minority professional staff member of the subcommittee, and I believe a native Minnesotan.

I would like to thank you all for taking time out of what I know is a busy schedule, earning a living or whatever you do, to be here at this hearing today.

As you know, the subject of the hearing is "The State of the Rural Economy." I think we have certainly come to the right place to find out about that, since this is the most rural congressional

district in the country. I thought that I represented the most rural area, until I learned more about this area.

Actually there are a lot of similarities between this district and the district I represent. For example, we are both in the southwest portion of the particular States, Minnesota and Georgia; also, we both have 30 counties, except that I understand there is also an extra township in this district. And, we are both called the second district of the particular States.

Most importantly, though, for these purposes, we share a very common interest when it comes to farming and agribusiness, since these two industries comprise the backbone of the economy, not only here, but in south Georgia as well.

Unfortunately, those economies are not doing too well. Last September, we held hearings similar to this in south Georgia. What we learned there was that the family farmer is in desperate financial condition. There certainly is a clear danger of losing the family farm as we know it today, unless we make some changes in policy to help that farmer and the agribusinesses that serve them.

Many of the witnesses in the previous hearings testified that they consider the Federal deficit to be their No. 1 enemy. They think it has kept interest rates too high, overvalued the dollar in foreign countries, and has kept farm product prices too low.

As you know, Congress has made a real effort recently to reduce the deficit and to work toward a balanced budget. We did this by passing the Gramm-Rudman-Hollings bill. We still do not know what the impact of that is going to be. Hopefully that trigger will never be pulled, because hopefully Congress would take the responsible action and pass a budget meeting those objectives in deficit reduction.

In addition to my duties on the Small Business Committee, I also serve on the Agriculture Committee. Last fall we drafted the 1985 farm bill and it was passed in December. It should have been passed as early as October. And, I know that that comprehensive piece of legislation is not satisfactory to every commodity producer in the country, or to perhaps any commodity producer to a full extent. It is hard to satisfy anybody completely, or ever to satisfy everybody.

But, I will tell you that considering that only about 100 of us in Congress really represent rural interest, the agricultural interest in this country, 100 out of 435, I was pleased that we were able to pass as good a farm bill as we did.

It has become increasingly clear in recent months and years that economic variables outside the farm sector have had more of an impact on the health of the rural economy than have the various farm programs, and that is something we have to consider, and that is another reason we are here today.

The purpose in holding hearings outside Washington is to be able to hear from the average farmer and the average businessman and to learn what you think is wrong with the economy, what you think Congress should do about it.

Today, hopefully, we will hear testimony from a number of different people, representing both agricultural and other small business interests. I think this will be a very informative hearing, not only for those three of us here, but for everybody back in Washing-

ton, too, because that is where we will be taking what we learn today. We have a reporter who will be taking a verbatim transcript of the proceedings and we will take that back.

At this time, I would like to call on the ranking minority member of the subcommittee, Vin Weber, your Congressman, to make any remarks he would like to, before we hear from the first panel.

Mr. WEBER. Thank you, Mr. Chairman. I would, first of all, like to welcome everyone to this hearing on the state of the rural economy, by the House Small Business Committee's Subcommittee on Antitrust and Restraint of Trade. I want to especially thank my colleagues, Charles Hatcher and Richard Ray, from the committee, from the State of Georgia, for coming to Minnesota and bringing some of their nice Georgia weather, maybe, with them on this Spring day.

We are privileged to have you in our district, and I hope that this hearing is as enlightening to you as the hearings we held last year in your districts were to me.

I would also like to thank the professional staff who helped put this hearing together, and extend a special thank you to Southwest State University for helping us and providing us with the facilities today, and especially to the president of the University, Dr. Bob Carruthers, who I understand is going to be welcoming us here before the first panel is introduced.

The hearing we are holding today is one of a series held by this subcommittee to investigate the problems facing rural small business and farm operators. We intend to use the information gathered at this hearing to further the cause of rural America in the Congress.

The House will soon decide the fiscal year 1987 Federal budget. I want to insure that the concerns of rural small businessmen are known to my colleagues, many of whom have little or no contact with rural America, that, of course, not being the case of the two that are here with me today.

The House Small Business Committee will also be looking at various legislation affecting business. We need to be sure that our colleagues on the full committee understand the particular problems we face in southwestern Minnesota.

The three panels that we have today are the following:

Panel one will deal with economic conditions generally in rural America, especially focusing on the agricultural economy.

Panel two will deal with special problems facing rural small business, the impact of the farm prices, if you will, on Main Street business.

And, panel three will be on a little different note, talking about small business working for opportunities, where we will try to find some glimmers of hope in this very dark economic time that we are living through.

Since we have limited time and many fine witnesses to hear from, I am going to withhold further comments and submit my opening statement for the record so we can get right into the testimony and have an opportunity to ask questions.

Again, I would like to thank everyone who helped to organize and who will be participating in these hearings.

OPENING STATEMENT OF HON. VIN WEBER, A REPRESENTATIVE IN CONGRESS FROM THE
STATE OF MINNESOTA

PROBLEMS FACING SMALL BUSINESS IN RURAL AMERICA

If Redwood Falls, Minnesota, population 5,200, is an example of what other rural cities are experiencing, and it probably is, the following is what we have had to contend with in the past 18 months:

1. Farm families: reduced income or loss of income. Result: limited or non-existent purchasing power, farms sold, foreclosures, displaced families.
2. Small Businesses: reduced sales of goods and services. Result: layoffs and closed businesses.
3. Major Manufacturer: largest employer, 400 jobs when at maximum capacity, affected by industry-wide negative factors - offshore competition, increasing costs, heavy debt load. Result: massive layoffs, shut-downs, reduction in total jobs. The manufacturer has adjusted to market conditions and is back into production and has rehired. However, they provide large numbers of jobs to farm families and their problems over the past year have added to the farm crisis. Good paying jobs and benefits lost, the manufacturer a victim of circumstances over which there is no local control.
4. Refinancing of business loans and indebtedness virtually impossible because of the banking situation resulting from the farm crisis, not necessarily the fault of the banks - they are caught in the same squeeze as is just about everyone else. There are no interest buydowns for small businesses!
5. Inflexibility of the various private and public systems in responding quickly enough to sudden business and farm crisis situations.
6. Lack of venture and risk capital to finance startup businesses and the expansion of businesses and industries.

7. Rules, regulations and excessive paperwork involved, as well as the length of time it takes to access available loan and grant programs.
8. Uncertainty of continued local government aid (LGA) to cities because of state budgeting problems. The Minnesota State Legislature held a special session on April 2, 1986 to resolve the budget crisis. If LGA funds had not been voted, cities in this State could have been faced with the possibility of having to raise local taxes 30 to 50 percent! Other states are probably experiencing similar budgeting problems.
9. Present State laws that limit or prohibit local taxing authority.

The rural communities seemingly are being hit from all sides. The farm situation is the major crisis, the agricultural sector as the underlying economic base of the rural communities.

But national and international factors, over which there is little local control or influence, are also contributing to the decline in rural business and industry. Thus, reducing the tax base, purchasing power and the ability of local communities to generate needed resources to support public services and to generate new jobs. It is a vicious circle of circumstances.

As can be seen, what is happening in rural America is far more than just the farm crisis.

At a time when many of the rural cities are just beginning to use some of the financial tools and intergovernmental programs available to them, particularly in economic development efforts, the Congress is proposing to eliminate them.

Local communities in the rural sector of the United States need revenue sharing funds, tax-exempt bonds, tax increment financing, and the Small Business Administration's guaranteed loans and programs that have been so beneficial to small businesses. Many of the programs and financial aids have enabled small cities to provide essential services to their citizens during a period marked by limited and declining resources at the local level.

There is no argument in the need to reduce the federal deficit. However, deficit reduction does have a price, and the price is apparently going to be paid by an already overburdened taxpayer. The communities in the rural areas are facing a rapid reduction in the numbers of people who are now able and who will be able to pay taxes in the future.

Economic development efforts must take into consideration the needs of farm families. Off-farm income is essential to many farmers and may make the difference in their ability to keep their family farms. Many farmers have told us that they do not want to be retrained for jobs that require them to move from the rural area. The alternative is to provide them with family supporting jobs or supplemental income opportunities in their neighboring towns. Farmers are very productive, responsible workers and as a labor force, are attractive to industries looking for an area in which to locate.

SUGGESTIONS:

SBDC's:

1. Strengthen the Small Business Development Centers (SBDC's). More emphasis on one on one counseling for small rural businesses. The SBDC's could use additional staff. SBDC seminar and workshop programs on business management are good. More of them are needed.
2. SBA SCORE/ACE Counseling: The volunteers need training. They should be organized into management teams: marketing, merchandising, advertising specialists; production, quality control, "Just in Time" inventory systems, inventory control; accountants, attorneys, bookkeepers, office managers, etc.

SCORE/ACE teams could work out of the SBDC's. SBDC personnel could oversee the various management teams, evaluate skills, retrain, and match SCORE/ACE teams with businesses in which they have had experience.

SCORE volunteers could work in businesses for short periods of time to upgrade their skills, familiarize themselves with new techniques, and management methods.

ACE people. A program needs to be developed to recruit loaned executives and management personnel from successful companies. They could retrain SCORE people. Experienced bankers, computer operators are desperately needed in retraining and reorganizing existing businesses.

3. Financial support is needed to provide economic development specialists on a county or regional basis to help the small rural communities organize economic development efforts, re-train existing businesses and recruit new businesses. Revenue sharing in Redwood Falls is partially funding the economic development position and program.
4. Financing: Venture and risk capital is needed for business start-ups and expansions. The management teams mentioned above could review start-up and expansion proposals, help entrepreneurs write business and management plans, and oversee the new businesses for the first year. This could be a requirement before any financing is made available and should reduce the risk to the financiers.
5. Job Development: The cluster concept of recruiting new industry should be developed. Example: Three manufacturers in Redwood Falls need a plating company. The certified plating company that they are using is 100 miles away. Because of increased manufacturing, all three companies are having difficulty meeting order deadlines because of the transportation time. There is also a transportation cost factor. All of the companies can expand if we can relocate the plating company. Problem: Cannot raise the capital to relocate the plating company.

A number of businesses in this area have the same expansion opportunities. We are trying to attract new businesses that are compatible with existing businesses, and/or have needed products/services that will complement the local operations. Again, financing is the problem. We have the buildings and labor force available.

6. Federal Programs: Rather than reducing or eliminating revenue sharing, tax-exempt bonds, tax increment financing and the Small Business Administration, the programs should be reviewed and reorganized as indicated to eliminate the abuses where they exist.

The rural communities do not have the taxing authority, let alone the tax base, to replace the federal monies and intergovernmental programs that have helped them underwrite their public services and the improvement of their infrastructures. Many of the states do not have the financial resources to replace this funding.

7. Farm Families: Management teams are needed to work with farm families to reorganize their business operations. Bankers, accountants, farm credit organizations and attorneys should be able to spot farming operations that are headed for trouble. A system of referring these farmers to management teams or appropriate agencies needs to be organized.

There are resources either available or that could be developed to enable earlier intervention before a farm is in a crisis situation.

Farms are businesses. They need to operate under the same business management principles that have enabled other businesses to survive and to adjust to the rapidly changing economic conditions that we have been experiencing in the past years.

Summary: Business in rural America is not as bad as people think it is! There is much that is being done and that can be done. Overcoming the doom and gloom psychological factor needs to be addressed.

In Redwood Falls we launched a "Promote the Positive" campaign in January 16, 1986. Each week we feature a specific business on the new business page of the local newspaper. We emphasize the number of jobs that companies provide, their contribution to the local economy, the products and services they produce, what they purchase from other local businesses and why they like their location in Redwood Falls. The owners/managers are interviewed on a weekly radio show that is aired the same day as the news story runs. A new weekly business column has been initiated. Recent topics covered have been the American Free Enterprise System, Applied Economics, the Purpose of Business, the Structure of Business, the Most Important Person/s in a Business, What Do Managers Do?, and the Basic Business Plan.

All of the manufacturers interviewed to date, have had some type of expansion or increased production to announce! Other businesses have had positive changes to report!

Mr. HATCHER. Thank you, Vin.

All right, at this time I would like to recognize Congressman Richard Ray of Georgia, for any remarks he would like to make.

**OPENING STATEMENT OF HON. RICHARD RAY, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA**

Mr. RAY. Mr. Chairman, thank you. Ladies and gentlemen, it is a pleasure to be here today with my colleagues, Vin Weber and Charles Hatcher.

I come as a member of the Small Business Committee, but also as one of about 100 Congressmen out of 435, who really have a vested interest in agriculture. That means that out of 435 people, we only have about 100 of us who really work hard and try to carry all of the legislation that takes place on the floor of the House pertaining to agriculture.

We are the advocates.

I have been a farmer. In fact, I went broke, farming, in 1949. Somebody asked me the other day how I liked the Congress. I said, it beats farming. But, nevertheless, I understand the problems and the concerns. I have been a small businessman for most of my life. I have been in the House of Representatives now for—this is my second term—served over on the Senate side as a staff person for about 9 years, so I think I have a focus on what your concerns are, particularly in the small business arena and in the agricultural area.

I look forward to being with you today, and in hearing your questions.

Mr. HATCHER. And, just before we introduce the first panel of guests, I would like to yield to Vin again for an introduction.

Mr. WEBER. Thank you, Mr. Chairman. Before we have our panels, I would like to introduce for the purposes of welcoming the committee to Marshall today, the president of Southwest State University, Dr. Bob Carruthers. Let me just say that this university was built while I was in high school actually. I grew up 30 miles down the road here in Slayton, MN.

And, it is a university that in many ways can serve as a model for our rural economy in this time of crisis, because it is a university that has been forced by changing demographics and changing economics to fundamentally rethink its whole mission and change its mission to adapt. It has gone through some very difficult times, but it has adapted, it has met those challenges, and today is a successful university that we believe has a long and bright future serving southwestern Minnesota.

In no small measure, that is due to the strong leadership they have had both past and present, and it is a great pleasure of mine to introduce the current leadership, the president of Southwest State University, Dr. Bob Carruthers.

**TESTIMONY OF DR. BOB CARRUTHERS, PRESIDENT, SOUTHWEST
STATE UNIVERSITY, MARSHALL, MN**

Dr. CARRUTHERS. Thank you, Vin. Mr. Chairman, members of the committee. We welcome you here to Southwest State University in southwestern Minnesota.

It is a very important mission that you are on here among us, because the very future of this district and this countryside depends upon the work that Congress is going to do in the years ahead of us.

We are very committed at this university to try and serve that population. You may know, Mr. Chairman, and members of this committee, that this is the only university in America which has a requirement in its general studies core that every student who goes through this university takes 12 hours in rural studies, to attempt to develop the leadership skills and the knowledge necessary to provide leadership in rural America.

You are going to hear some testimony here later on about some of the other programs that we have put together. Our Science and Technology Research Center, our Small Business Development Center, our Southwest State University Management Center—in our leadership role we have been able to take in the McKnight funding out here in the development of the Southwest Minnesota Initiative Fund.

We want you to know, and we want everybody in this room to know, that our fate and the fate of this district are inextricably tied together, and we are committed to making it a success.

I hope we will be able to have a productive session here today, and address many of the key issues, but in case anyone else does not ask this question, I want to just plant this one in your mind, and that is: In an economy which clearly is going to be based on knowledge in the future, an economy in which Americans are going to compete based on their knowledge level, I wonder how we are going to be able to do that, particularly with children who come from farm families in rural communities with the kinds of financial aid cuts that we are looking at in the next years ahead of us.

I think that all of us need to understand that financial aid is an investment in the human capital, in the development of the economy in the future. I hope we are going to, at least someplace today, touch on that one issue.

Again, welcome here to Southwest State University. We look forward to your comments.

Mr. HATCHER. Thank you very much, Mr. President. At this time, we would like for Panel One to come up to the table to my left, please, to discuss economic conditions in rural America.

Mr. Bob Olsen, who is a cattleman from Canby, MN; Ms. Barbara Vickerman, The Wishing Well in Redwood Falls, MN; Mr. Curt Frazeur, farmer, Canby, MN; Mr. Tom Anderson, from Anderson Furniture Store in Alexandria, MN.

And, I suppose, we will just take you in that order, if that is agreeable with you. Do you have any other preferred order? Then we will hear from each of you, and then this panel over here will have an opportunity to question you, and I would like to call first on Mr. Bob Olsen.

TESTIMONY OF ROBERT E. OLSEN, CATTLEMAN, CANBY, MN

Mr. OLSEN. Thank you, Mr. Chairman. I would like to welcome you and Congressman Ray, and, of course, thank Vin for this op-

portunity to express some of my feelings about what is going on in southwestern Minnesota and rural America in general.

I would like to tell you a little bit about myself. Of course, my name is Bob Olsen. I am married, have been for roughly 10 years. We have two children.

I am presently farming 480 acres of land which has been in the Olsen family roughly since 1933, so my folks do know what hard times are, and have great insight into what is happening now.

I have lived on a farm all my life, and have farmed for the past 12 years. I am a graduate of Canby High School, member of the local FFA chapter, trustee of our local Lutheran Church, and also have been active in Groundswell, a movement I am sure you have heard of.

We presently run a 70-cow herd, and background our calves to roughly 650 pounds. Besides that I market about 700 head of hogs a year, plus various grains.

I guess one of the things—and I have a typed-out prepared statement, and of course, I am not great at reading and speaking at the same time, but—I guess one of the most important things—

Mr. WEBER. Bob, if I could interrupt you just for a second, for all the witnesses' benefit.

Mr. Chairman, I would ask unanimous consent that all the prepared statements as printed be submitted for the record.

Mr. HATCHER. That is a good idea, and you can paraphrase it, read parts of it, just talk, however you feel more comfortable doing. But, we will take your verbatim statement and put it in the record as well.

Mr. OLSEN. OK. Thank you. That is kind of the way I prepared it anyway.

Mr. HATCHER. Good.

Mr. OLSEN. Getting back to what I was saying, this is a small business committee, and I feel that one of the reasons small business in southwestern Minnesota, and particularly, as I see it, is failing and actually to a disastrous level, is because the farmers in our area are not bringing home the bacon as we should say we have done before.

When you consider the amount of livestock that was in this area in the past 10 years, every farm site had a certain number of stock cows or cattle, and I am speaking in cattle, in specifics, and those same places right now do not have that livestock. Those cows and calves are not out there.

And, I am sure the same situation exists through much of America, especially for the West from here, 200 or 300 miles to the West, where a lot of marginal land was used for grazing and pasture, which has now been plowed for wheat and various grain production.

Some of the things about it, that this farm program has come up, and as you were saying, Congressman Hatcher, that you had worked on the House Agriculture Committee is that this farm program right now, as I see it, is one of the most inept and prejudiced farm programs that we have ever had.

We have a dairy buy-out that is pumping massive numbers of dairy animals onto the market, and forcing our cattle prices down, if you want to take a for-instance: In 2 days we have seen a drop of

between \$4 to \$6 in the futures, and at least \$4 in the cash markets. Well, if you are sitting with a 1,100-pound animal on the place, and you start talking that kind of money, and the average guy around our way is from 100 to 200 head, you are losing from \$4,400 to \$8,800 on that entire group of livestock.

The problem is that you cannot turn over a group of cattle like that every day, so that you could pick up these losses as the market changed. On a group of 200, you maybe have a period of 30 days of total marketing time, if you have done your job right.

I would like to ask all the Congressmen and Senators in Washington, when are you going to start subsidizing the cattle and hog industries like you have the dairy? The dairy industry has had their subsidy since—and I am not picking on the dairy industry, in specific, just the prejudice that exists in the farm—past farm programs, too. They have had subsidies as long as I can remember, whether on the milk, whether in the PIC Program, and now in the dairy buy-out program.

And, for some people that have managed to bid high enough, they are receiving quite massive amounts of money, and not really for all that large an operation.

There are a few other points besides that, and I do not want to dwell on that Dairy Buy-Out Program, I mean, it is helping some people and obviously hurting others, but one of the major points that I have done some research in over the past few months is the trade imbalance, the imbalance that we have between our exports and imports in this country of red meat.

Now, we bring in a lot of foreign meat into this country—the Federal Government has more or less declared war on the livestock producer by its quotas and allowed amounts of red meat from other countries to come into this country.

And, when you go through, and I have asked Annette to please pass you a copy of it, I have a quick breakdown of exactly what is coming into this country. But, very simply, just to round figures off quickly, in 1985, calendar year 1985, we imported roughly 2.1 billion pounds of beef to this country. In turn, we only exported roughly 328 million pounds. That is an imbalance of roughly 1.8 billion pounds of red meat.

Now, it is hard to comprehend all that meat either piled in steaks or laying in a pile of hamburger, but it is a lot of meat.

And, the pork industry doesn't fair any better. The same thing happened there. In 1985, 1.2 billion pounds of pork was imported in this country, and we exported 129 million pounds. You know, I almost take that as an insult, as an American farmer, that we bring in more foreign meat and ship out less of our high quality, highly inspected meat.

The difference of it, though, you know, like I said, in the pork, you are talking a difference of 1.8 billion pounds of beef, and 8.9 million pounds of pork per year, that is excluding live animals. We have roughly 830,000 head of live cattle that come in from Mexico and Canada every year, and we export slightly over 117,000 out of this country.

I guess the point I am trying to get to and make is that with these surpluses, and we always talk that there is no demand for meat. There is no demand for meat, but yet we are looking at a

point now where we are bringing in meat when there is no demand in this country for what we already have.

Well, the interesting statistics show, and I collected most of this information from the 1985 Livestock and Poultry Situation Report put out by the USDA, the American consumers, as a whole, consumed 37.4 billion pounds of red meat last year, whether pork or beef, and the total red meat production by the U.S. farmer and livestock producer was 37.2 billion pounds. What I do not understand there, is why are we importing when the American farmer is just barely meeting demand?

I mean, if this situation existed by itself, without the imports, can you imagine the situation that would be created out here? You would have people making money again for a change. And, when we make money, Small Town America grows, too.

And, once more, just to carry it on just a little farther, and I think you should be made aware of it, if you consider that roughly 2 million head of animals, if you are talking in the beef industry, you are talking roughly 2 million head of cattle. Well, those 2 million head of cattle would burn up an awful lot of our surplus feed grains that we have now. You can see the conditions that it starts to create once you start enacting such legislation.

To carry on with it, it is a big problem, I understand it. I do not understand fully all the time what the facts and figures are from overseas. I used the reports that are put out to us to compile this information, so I feel that it is valid. But, in conjunction with this, this meat that is coming in, is not inspected. At least not to the standards that we have to live under. I mean, I have to be careful what antibiotics I feed, how long I feed them, and at what levels I feed them. Can you honestly guarantee me that 10—and actually it is—10 percent of the meat supply in this country, which is foreign, arrives under those same stipulations?

And, you know it is frustrating. It is frustrating to a lot of us. I mean, you get complimented on your livestock, you do a good job, and yet you realize that compliments do not pay bills or taxes or furnish your family with their basic necessities.

What really gets to me, I guess, after awhile, you know, you go through all this, and you're fighting, and all of a sudden you see a report put out, one in particular is the USDA Dietary Goals Report for 1985. And, for the last 10 years, it has continuously repeated itself, "Don't eat red meat, it's bad for your health." Now, I want to share a little something about that, my dad is 75 years old. And he has been a farmer all his life, of course. And, he has eaten red meat, I'm sure, every day of his life, if not maybe three and four times a day. And, I would feel safe to bet that he would put a lot of 40-year-old men to shame right now, at age 75.

So, I find it hard to believe that the statistics, reports, coming out are saying that red meat is bad for you. I am sure that anything without moderation is bad for you. Of course, but to make such a direct and hostile attack at one segment of American industry is completely unfair.

In conclusion, to kind of wrap it all up, I guess I ask: It is my belief that to come here and to tell you the problems of what is going on out here is important. But, equally important, I feel it is my responsibility and duty as a citizen of this country to try to

share with you some of the possible solutions that I feel would work, and one of those being: I would like, myself personally, to see a ban on all red meat imports in this country, for if not a short period, at least long period—long-term goals, stipulating that it does not interfere with our own domestic market.

Let us have our domestic market, because we are the ones who make it up.

And, also, if red meat does have to come into this country, if that is one thing that has to be imported in this country, at least inspect it. At least make it meet the same criteria that we have to meet.

Those things I don't believe are too much to ask.

As far as the reports coming from the Government, I can't honestly say that they're not true, that they're false. But, I feel that when they put those reports out, please, instead of general terms, be more direct, define more what you mean and what you are saying. I am sure that those people that put out that report would agree with me that a certain amount of red meat is not going to hurt anybody and in most cases is healthful to most people. It is high in protein, minerals, and vitamins.

So, like I said, it is very disgusting. One of the quotes that I have always carried with me, and feel is most important in trying to understand the situation in rural America and in this country as a whole, is: "If you destroy the cities and leave the farms, the cities will grow again. But if you destroy the farms, and leave the cities, the grass will grow in the streets of every city in this country."

And, of course, you know Williams Jennings Bryan was the man who had the wisdom and insight to suggest such a thing.

But, I really do believe that that is the truth.

One of the things that I have thought and this is some of my thoughts, I am going to express from the work I have done in the past year and a half, in dealing with farm foreclosures and watching people have to leave their land and their farm and the things that they hold dear and honest to their lives. You know, the question comes up, "Are farmers really so evil? Are we really bad that we have to be done away with like common vermin? I mean, you know, we're a disease that has to be purged from this land."

Or, are we just too blind to see that with our fast life and our modern styles we cannot see the important things in life, the important structures that maintain a strong and healthy country. Or is it just simply that somebody else wants what we cherish so dearly, and if that be the case, may God help us all.

And, I thank you for the opportunity to speak to you.

Mr. HATCHER. Thank you, Mr. Olsen.

[Mr. Olsen's prepared statement follows:]

PREPARED STATEMENT OF ROBERT E. OLSEN, CATTLEMAN, CANBY, MN

Character Background:

Name: Robert E. Olsen

Age - 29

Wife - Bernadine

Age - 28

Children:

Chad - Age 10

Cerrisa - Age 6

Farm Background:

Presently farming 480 acres which has been in the Olsen family name since 1933. Farm life has been my life since birth & I have been activitely farming on my own for the past 12 years. My credentials include a High School diploma member of the local FFA Chapter, Past trustee of Marble Lutheran Church, original members of the Groundswell Movement, and currently a Township Supervisor. My present operation includes stock cow and calve operation along with hogs and grain farming. Production exceeds 70 head of cows better known in the trade as "Backgrounding." This results in calves reaching 650 lbs & over. 700 head of hogs are also marketed throughout the year along with corn, beans, wheat & hay which consists of our principle crops.

FORWARD:

I would like to welcome and thank you for coming to Marshall, Minn. and affording me the opportunity to explain the present situation of the cattle & pork industry. This may allow us the possibility of not only sharing ideas but also lead to a solution to this very serious problem.

We are losing the small towns in our area, because small businessmen cannot, like myself, earn a living and prosper when their main customers are no longer in business. I do not appreciate having to travel thirty miles plus for the services I formerly received locally.

I would like to inform you as to why main street in our small towns are rapidly disappearing. I know this is a small business hearing, but what is happening to the beef and pork producers is a cause as to why small town USA is disappearing.

Ten years ago the farm sites in this area were heavily populated with stock cows and feeder cattle. Now these same farm sites are devoid of this type of livestock. But then what do you expect, when the Federal Government has more or less declared war on the livestock producers of this Country through this inapt & prejudice farm programs. The 1986 farm program really puts the icing on the cake. For instance the dairy buy out program produced the following results in my estimation. The Futures Market on the Chicago Board of Trade dropped three to four dollars per hundred from 56 cents a pound to 52 cents a pound in a period of a couple days due to the rumored number of dairy animals to be slaughtered because of the program. The consequence of this action means a loss of \$44.00 per animal and a total loss of 200 head of \$8,800.00. Now I ask you, when are the cattle and hog producers going to be subsidized like the past and present dairy programs have been, let alone be hurt by it? If anyone can call this fair, they are badly mistaken.

I would like now to cover several other points that are very prejudiced to us cattle- and pork producers along with the dairy program.

The Trade Balance of Imports and Exports of red meat in this country is one of the many problems [if not the worst] that cattlemen and pork producers face today. Competition is very critical in this country alone without imports. But the Federal Government has made the situation more critical by allowing foreign meat & meat products to enter this country. Along with this foolish and inept Farm Program, the dairy buy out, wastes the tax payers money and also destroys the cattle & pork producers chances of surviving this farm crisis. I have compiled some facts about the situation in this country concerning this buy out and imports.

FACTS:

We import roughly nine times more red meat, than we export. For instances we imported 2.1 billion pounds of beef in 1985, and we only exported 328 million pounds. A difference of approximately 1.8 billion pounds. And Pork fares no better. We imported approximately .2 billion pounds in 1985. In return we only exported 129 million pounds. A difference of 8.9 million pounds. If Congress would ban imports of red meat the futures and cash price would stabilize at profitable levels. A very simple solution to the low prices we now live in.

EXAMPLE:STATISTICS BASED ON THE LIVESTOCK AND POULTRY SITUATION REPORT - CALENDAR YEAR

1/31/85 ---- 1/1/86

RED MEAT IMPORTS - [For 1985]

Type	Processed Meat	Live Animals
Beef	2.1 billion lbs	830,000
Pork	1.2 billion lbs	1.25 million

RED MEAT EXPORTS - [For 1985]

Beef	328 million lbs	117,000
Pork	129 Million lbs	12,000

SUMMARY:TRADE IMBALANCE - Of Imports versus exports

Beef	1.8 Billion lbs	723,000
Pork	1 billion lbs	1.24 million head

Total Red Meat consumed in 1985 = 37.4 billion lbs.

Total Red Meat produced by U. S. A. was 37.2 billion lbs.

Without imports the American producer could just keep up with demand. This situation would guarantee the future of many cattle and pork producers and small town businesses. In addition to easing our plight, this ban would stimulate increased numbers of stock cow and sow herds which would use a large proportion of our surplus of feed grains and would take marginal farm land out of grain production, which would normally have been used for grazing and hay! Thus reducing grain production.

Not only is a large portion of our total meat supply imported [about 10%] but very little of it is inspected on the same basis as ours. Who knows what is in this imported meat and we even question if it is even beef or pork! It is the American consumer who has to pay for this meat. At least let them know what they are buying. If the Federal Government really wishes to help us, then make it a law that every pound of meat be inspected and labeled as to it's point of origin.

As if this isn't bad enough, our Federal Government has published a report called the USDA Dietary Goals Report, for the last ten years, that has continuously stated that eating red meat is bad for your health. I really wonder if this is true. My dad is 75 years old and has eaten red meat all of his life, probably three or four times daily and I would bet he could put many 40 year old men to shame.

CONCLUSION:

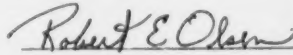
I respectfully ask that you implement the ideas I have proposed to you. If congress thinks President Regan's 100 million for the Contras is more important than the future of rural America, they are badly mistaken. It was the farmer who built this Country and made it what it is today, but without them it will surely fall. Remember this famous saying, "If you destroy the cities and leave the farms, the cities will grow again. But if you destroy the farms, grass will grow in the streets of every city.....William Jennings Bryan.

Are farmers so evil that we must be done away with like vermin? Or are we so blinded by our fast way of life and modern styles that we can't see what is important anymore? Or is it only that somebody wants what we cherish so dearly? If so may God help us all!

I thank you for the opportunity to share my feelings with you.

With appreciation and kindest regards I am

Yours Sincerely



Mr. Robert E. Olsen [An American Farmer]

Mr. HATCHER. Next, we will hear from Ms. Barbara Vickerman.

**TESTIMONY OF BARBARA VICKERMAN, THE WISHING WELL,
REDWOOD FALLS, MN**

Ms. VICKERMAN. I would like to welcome you here to rural Minnesota, and of course, we, in the southwest part feel that this is probably the most attractive part of the State of Minnesota.

I have been raised on a farm in Redwood County here in Minnesota and spent all of my high school days in a small community, and shortly after marriage had moved to the metropolitan area. I spent 15 years living in Minneapolis. So, I can definitely compare the two lifestyles and needless to say we were anxious to return to life in rural Minnesota.

I have four children and two grandchildren. All four of my children have had to leave the rural communities because there is just really no opportunity for them. Two of them would very much like to come back to Redwood Falls to continue their life and to raise their families in a rural community.

If Redwood Falls' population of 5,200 is an example of what other rural cities are experiencing, and it probably is, the following is what we have had to contend with in the past 18 months. Farm families with reduced income or loss of income: The result of that is that there is limited or nonexistent purchasing power. Farms have been sold, there have been foreclosures and there are many displaced families.

As far as small business, there is reduced sales of goods and services. And, I can speak from experience there, because I have been in a small gift shop business for 14 years, and there were very good years there when there was lots of activity, and now I look at the last 2 years, we show a 15-percent decline in gross sales in my type of business, and another frightening thing is that there is at least that great or a greater drop of people that are shopping, people that are around to do business with.

Just this year alone we have already shown another 3-percent drop in the sales in our business. To add to the problem, we have

an increased cost of doing business in the last few years. I have a very low risk business, and when you look at what the liability insurance has done to some of the small business people, it has gotten to the point where you just cannot afford it.

With the loss in goods and services and sales, that also means that there are layoffs and businesses that are closing. In our community we have lost 10 businesses in the last year. Two of these were women's ready-to-wear shops. We lost a furniture store, an appliance store, we lost three large businesses that were farm-oriented businesses that were into grain dryers or the farm-bin type business. And, then to add insult to injury, two of the very large businesses in our country said that they do not want to do business in rural Minnesota any more, this is J.C. Penney's and Montgomery Wards, both having pulled out of our community.

These things have really started to show a drastic effect on your main streets in your small towns, not just in Redwood Falls, but I would venture to say, all across this part of the State.

In Redwood Falls we have a very small amount of major manufacturing. Our largest employer there supplies 400 jobs when at its maximum capacity, and they are under the burden of increased costs and a heavy debt load. The result is that they have had massive layoffs and shutdowns and reduction in total jobs. The manufacturer has adjusted to the market conditions and is back into production and has rehired. However, there was a time there when there was a large layoff and a good number of the people employed in that business are second income people for farm families, where their wife, or in some cases even a husband, has a parttime job in this manufacturing business.

So, when they have had these problems, we have lost some good paying jobs and benefits have been lost, and the lack of manufacturing being able to be carried on—is something that they have no control over. The contracts that they have lost is due to the economic situation across the country.

Another problem has been refinancing of business loans and indebtedness. It is practically impossible because of the banking situation resulting from the farm crisis. It is not necessarily the fault of the banks, and it is not the fault of the farmer, because of this financial situation, but when anyone comes into a bank now looking for financial help, it is just about impossible. And, there are no interest buy downs for a small businessman when he is in trouble. I have had the experience of having some problems, and being told, flat out, by some of the bankers that you should just lock the door and forget it.

There is an inflexibility of the various private and public systems in responding quickly enough to the sudden business and farm crisis situations. We also feel that there is a lack of venture and risk capital to finance any start-up businesses and the expansion of any businesses and industries that we have at this time.

We have a problem with all the rules and regulations and excessive paperwork involved, as well as the length of time it takes to access available loan and grant programs.

There is an uncertainty of continued local government aid that we have to contend with, to the cities because of the State budgeting problems. The Minnesota State Legislature held a special ses-

sion this April 2 to resolve part of that budget crisis. And, if the LGA funds had not been voted, cities in this State could have been faced with the possibility of having to raise local taxes 30 to 50 percent.

And, other States are probably having this same type of budget problem.

We have a State law that also gives the small towns and cities a problem—laws that limit or prohibit the local taxing authority.

The rural community is seemingly being hit from all sides. Just this past week in Redwood Falls, we had a meeting of people in conjunction with our Board of Education. We are reaching a point educationwise where it is getting to be a problem in the rural part of the country. The population is decreasing but we still have students here that need a better education. In our case, we have a building that is quite old, needs to be replaced. And, when you get a group of people together, immediately the farmer is saying that, no way, can he afford to have any more taxes slapped onto his land value. And, I sympathize with him, but I sometimes often think that the farmer does not realize the impact of taxes on businesses.

For instance, a grocer who has less than a square block, and only about a half of the block has the building and parking lot, just that little piece of land is costing him a little over \$20,000 a year for real estate taxes, which basically go for education and services in the community.

This kind of thing is getting to be impossible for the small town person to pay for.

And, basically, we feel like the farm situation is really major to this crisis, that if we saw a profitable farm community that the rest of the things would also begin to show a profit, because the farming community is the grassroots that keeps this country going.

There are also national-international factors over which there is little control locally, or that we feel that we have very little influence, and I think that is becoming, psychologically, a depressing thing. People are beginning to think that we really do not have any control out here, that we just have to put up with what is handed to us.

But national factors are contributing to the decline in the rural business and industry, thus reducing the tax base, purchasing power, and the ability of local communities to generate needed resources to support public services and to generate new jobs. It just seems to be a vicious circle of circumstances.

As can be seen, what is happening in rural America, is far more than just the farm crisis. At a time when many of the rural cities are just beginning to use some of the financial tools and intergovernmental programs available to them, particularly in economic development affairs, the Congress is proposing to eliminate them.

Local communities in the rural sector of the United States need revenue sharing funds, tax exempt bonds, tax increment financing, and the Small Business Administration's guaranteed loans and programs that have been beneficial to small businesses.

I visited with an individual this morning who had taken advantage of the small business loan. His business had been destroyed by fire in 1976. And, he found that in going to the local lending agencies, the amount of capital he needed to restart his business, was

beyond what the small bank would consider, and with their advice he went to the Small Business Administration, did get his loan, and in just a matter of 8 years has returned all the money that he borrowed at that time, has paid off on his loan, and felt that the SBA was a good organization to work with, and certainly could be used to further help other small businesses in our community.

And, many of the Federal programs and financial aids have enabled small cities to provide essential services to their citizens during a period marked by limited and declining resources at the local level.

There is no argument on the need to reduce the Federal deficit. However, deficit reduction does have a price, and the price is apparently going to be paid by an already overburdened taxpayer. The communities in the rural area are facing a rapid reduction in the number of persons who are now able and who will be able to pay taxes in the future.

Economic development efforts must take into consideration the needs of farm families. Off-farm income is essential to many farmers and it makes a difference in their ability to keep their family farms.

Many farmers have told us that they do not want to be retrained for jobs that require them to move from the rural area. The alternative is to provide them with family supporting jobs or supplemental income opportunities in their neighboring towns. Farmers are very productive, responsible workers, and as a labor force are attractive to industries looking for an area in which to locate.

There are a number of suggestions in the written testimony that I am sure that you can refer to. There are suggestions that we have here that could do some things to improve the Small Business Administration, and we are encouraging, in our community, that a lot of our people that are in financial trouble with small business, go to the SBA for counseling. We feel that is a field that the SBA should expand, to make counseling available for the small businessman.

We definitely need SBA loans if we are going to get some small industries started in our community so that we can develop jobs for the people.

I know that there is a Farm Loan Administration and things like that to help the farmer, but farming is a business, and maybe there are some things that even through the SBA could be done to help the farmer in teaching them management and helping them to deal with their problems.

There are resources either available or that could be developed to enable earlier intervention to stop these things before the problem gets so big. It seems like some place along the line we have messed up, because the problem has gotten just monumental now and it is going to be much harder to deal with.

And, to keep in mind that farms are businesses. They need to operate under the management principles that have enabled some of the small businesses to survive and to adjust to the changing economic conditions. Business in rural America is not as bad as people think it is. There is much that is being done and that can be done.

Overcoming the doom and gloom psychology factor needs to be addressed, and I think that is very important. We have to have

some positive thinking. I was raised in a home where you had better think positive, and I think we need to impress that upon our children too, that we have got to have a positive outlook, we cannot be pessimistic.

In Redwood Falls, we launched a "Promote the Positive" campaign in January of this year. And, to help along that line, each week we feature a specific business on the new business page of our local newspaper. We emphasize the number of jobs that that company provides, their contribution to the local economy, the products and services they produce, what they purchase from our local businesses, and why they like their location in Redwood Falls. The owners and managers are interviewed on a weekly radio show that is aired the same day the news story runs. And, a new weekly business column has also been initiated. Recent topics covered in that business column have been American free enterprise system, applied economics, the purpose of business, the structure of business, the most important persons in a business, and what do managers do, and the basic business plan.

We have felt that so many times there is not enough communication between the farmer and the businessman, and thinking that one can survive the other. No way can we survive without the other, and in no way should we be spiteful about the other's problems or the other's advantages. We have to work together.

In the local newspaper articles that we have been running, all of the manufacturers interviewed today, have some type of expansion or increased production to announce, and other businesses have also had positive changes. So, I guess I just wanted to end on a note that, let's not think of it as all doom and gloom, but that it can get better.

Mr. HATCHER. Thank you, Ms. Vickerman.

The next witness is Mr. Curt Frazeur.

TESTIMONY OF CURT FRAZEUR, FARMER, CANBY, MN

Mr. FRAZEUR. I also would like to thank the committee for coming to rural Minnesota. I have a little different message to bring to you today, some comments that I have written down as we have gone through.

It is apparent to me that any time any one receives something from the Government, subsidies of any sort, that it means that somebody somewhere else out in society, the taxpayers, have to give something up, something in their standard of living, something in their standard of living of their employees.

I would assure you there is life after farming for those who can do it. It is a painful process. There have been some innovative things done as far as two-tier financing. We have seen diversification coming in, new crops, new ideas, we have seen need to remove barriers at the State level, and there is much that could be done at a State level that cannot be done at the Federal level.

We see part of the problems coming from being next door to South Dakota. It has created a vast difference with our politics and southwest Minnesota being right next door is an apt target, why not move an extra 50 miles and get into the lower tax basis.

And protectionism is no solution. I think you can see that with the EEC, how they related to their agricultural economy, and how they are starting to suffer the consequences.

We, who experienced the booms of the 1970's, resist and we hesitate to accept the standard of living reduction that comes with these times. That may not be wrong, when we refuse or reject that process, but we also have a chance to start out doing some other things.

I hear reports of a dying rural America, and I choose not to take them seriously. I think Barb hit on it real well when she talked about need for positive thinking. I think Bob hit some real good points when he talked about the meat problems of imports, or at least of the quality, that we should have the same standards as everybody else.

There are some of those out there who are suffering. This is an economic phase and it may pass, it should pass. But, there are also those of us out there who are striving, and being innovative, and thriving. Not only in farming, but in business.

Business has become more innovative, become more service oriented and accessible to the customers, offering new and more creative wares. I like that and am encouraged by that. What I do not like are what I see as the two greatest threats to rural America, and Chairman Hatcher, you related to those when you talked about it earlier, high interest rates and regulations. Both, I believe, are Government created, and I realize once you start those programs how hard it is to extricate oneself from that web that we have to fight.

Because of huge Government expenditures, interest rates and inflation have soared in the past; because of inflation many bought the idea and bought land, bought products, with the theory that values can only go up. But, the higher we soar, the farther we will drop. Inflation is no basis for purchasing anything, whether you are a small business—I hate making that differentiation between the small business and the farmer, because we are one and the same.

I think that high interest rates caused a strengthening of the dollar, they were put in place to stop inflation, they restricted exports, and caused a general trauma within the business community, on Main Street, and within farming.

As repayment failure accelerated, agricultural lenders raised their interest rates and regulations toughened, reflecting attempts by the lenders to put their fingers in a leaky dike. Interest rates remain high, and borrowers who can, have abandoned traditional credit lines. This leaves lenders in a precarious position as they have the more marginal borrowers and the risk accounts to deal with.

It also caused an interesting and a terrible dilemma for those people who are suffering that problem, and that is, that they went out and grasped at a number of false hopes, a fake lender, the get rich quick scheme, things that were not sound business-based, but were desperation moves. They all result in higher interest rates for those who least can afford them.

Congress responded with a farm bill. One provision aimed to shoot the dairy cow and shot the beef and somewhat the pork pro-

ducer in the foot. With all this cause and effect there was a need for a quick fix, but that quick fix has long-term inequities. Because the beef industry may be injured by the whole herd buyout, because dairy supports were in place which caused a glut in dairy supplies, forage now may be taken from diverted acres. So, now, what happens to the professional forage producer? It is going to hurt him. Maybe, we will have to put in a program to subsidize that individual, or maybe, we will have to start buying out whole farms.

Of course, while some producers benefit by this golden parachute, its main goal was to reduce those quantities of products, of milk commodities that were held by Government, subsidized by the taxpayers. And, inequities that we see in the CRP Program, such as those who have chosen to be good stewards of the soil are not eligible for the program, while across the fence someone has chosen to plow fence row to fence row black dirt, and it can blow. They are eligible and they can get subsidies from the Government.

Also, I notice something very interesting, and I do not mean to be too critical, but it looks to me like the political football of the Ag program was tossed on the door step of the Ag Commissioner and he was told to make the tough decisions.

When you put in low limits, you know those are the ones in this current time that he is going to try to institute, and then it goes back and we have to have a readjustment to the bill.

Many farmers are no longer dirt farmers or livestock farmers, but they become government farmers. It is a repressive position for those of us who are in agriculture, because we have regulations and rules that we have to live by. The Government's role should be in protecting product integrity, assuring free, fair and open trade, it should do things such as removing the IRS power to dictate interest rates on intrafamily loans.

Government must get its house in order. And, as traumatic as it may seem, I believe that Gramm-Rudman-Hollings may be our last chance. We need Government to compete as little as possible for the development funding that Barb Vickerman was talking about. We can survive out here, we will continue to innovate, whether it is through an open market system or through a cheap-food subsidized farm system, that is "cheap food farm subsidized program" when you subsidize a farmer, that means cheaper food for the people who are paying the taxes. They can either pay in taxes or they can pay at the marketplace.

Either is going to cause suffering. One leads to innovative ways to feed the world, the other to less production, and greater regulation. Agriculture will survive, rural America will survive. It is up to you to decide, and us to decide which form we are going to take in this program.

Thank you.

Mr. HATCHER. Thank you, Mr. Frazeur.

Our next witness will be Mr. Tom Anderson.

TESTIMONY OF TOM ANDERSON, ANDERSON FURNITURE STORE,
ALEXANDRIA, MN

Mr. ANDERSON. Thank you, Congressmen, for inviting me here today to speak on the problems.

I come from Alexandria, MN, which is about 120 miles to the north, and it is a city very much like Marshall, a small rural community based on agriculture.

And, by some of the things I say today, you are going to think that Ms. Vickerman and myself maybe got together and discussed what we were going to talk about, but we did not.

Our family is involved in the retail furniture business, basically; we have been there for over 100 years; and I am fourth generation. We are a fairly large-sized company, we have sales of approximately \$1 million, so we are on a small business-side on a larger side, but yet my neighbors in the community, I see them falling by the wayside, and that does not mean that we will not do the same.

The economy of Douglas County and Alexandria is not unique to that area. I believe that it is quite representative of the economy of the Midwest farm-based States such as North and South Dakota, Iowa, Nebraska, Wisconsin, and our own Minnesota. As a matter of fact, because Alexandria is in a fairly conservative area, with several farms that have been in the family for a long period of time, I would be led to believe that that area is even in better shape economically than most rural areas. However, as I will explain, we are having some difficult times.

And, I am going to go on here to explain not only some federally based reasons, but also some State-based reasons, so bear with me in that, and I will come to a conclusion.

It is my contention that the depressed agricultural economy is a base for all the economic woes now hitting small business in rural America.

Two years ago, we first started listening to the farmers and their problems, last year we heard of problems in agriculture-related businesses, and today, Main Street Rural America is in jeopardy. While the loss of farm income has contributed to the local sag in retail sales, it is not the only hurdle that small businesses will have to face in Minnesota in 1986.

A second enormous problem facing small businesses in 1986, will be the cost of general liability and workmen's compensation insurance, if at all available. General liability insurance has increased, depending on the type of business that you are in, as much as 300 percent. And, even for a low risk retail establishment, such as ours, it has risen over 50 percent.

The local municipal liquor store in Alexandria, which at one time contributed a substantial number of dollars into the local government, has had to close down its off-sale portion, in part because of liability insurance problems. I also know of commercial businesses in Alexandria that have dropped their general liability insurance in order to stay in business.

We are told to blame the insurance companies, juries, attorneys, or whomever, but the simple fact is, reform must be made in order to protect both the insured, with affordable insurance, and the potential victim.

President Reagan, I believe, is ready to lead this reform, which is a start for helping small businesses.

The other problem in insurance, that of workmen's compensation, is a State problem. However, it does create a financial hardship for Minnesota companies, such as those in construction who are paying over 38 percent of wages in insurance regardless of their safety record.

Another problem in Minnesota is that of the unfair property tax system. While most States have three to five classifications of property tax, Minnesota has 70. With property taxes being the main revenue for local units of government, such as city, county, and school district, it is imperative that these taxes be collected, or vital local services will have to be cut.

Property tax is one area where the depressed farm economy has really had bad implications for the commercial and industrial businesses in rural Minnesota. I will explain: Property taxes are collected on property values, which in the farm area have decreased dramatically, resulting in lower property taxes for the farmer. And, that is how they need to be. And, I heard a statistic the other day that farm land in the last 5 years has decreased \$21 billion.

However, because we cannot cut our vital services such as the schools, that revenue has to be picked up by someone else. In their wisdom, our State government decided that this group of property should be rural commercial business and industrial property. For instance, a portion of our commercial property, which had no improvements in the past year, was taxed approximately \$41,000 in payable year 1985, and about \$51,000 in payable year 1986. This is an increase of over 24 percent in 1 year.

While most small business owners are resourceful entrepreneurs, what is being asked of them is almost impossible. We are being asked to increase our unavoidable fixed cost at the same time that our best customers, the farmers, are unable to make purchases. This is the reason rural Minnesota newspapers are filled with "going out of business sales" and foreclosures.

Now that we know there are some major problems in the rural Minnesota small business climate, the question is: What are the problems causing, and where will they lead us in the future? The cost of doing business in Minnesota combined with the loss of major customers due to financial inability will obviously lead to some financial restraints among employers, including trimming jobs from the payroll.

Once these jobs are lost, I doubt that they will be replaced in the rural community for several reasons. One of these reasons would be the instability of the rural economy. Young people, even with interest at very low rates, have not been building in rural areas due to the uncertain future of these areas. They feel that their jobs will be more secure in the metropolitan area.

Second, I believe that the entrepreneurial spirit has been stripped from rural Minnesota. It has been noted that two out of every three jobs created today is created by small business and not major conglomerates. However, it seems that some of my friends who have been lucky enough to build a savings account forego the uncertainty of building their own business in favor of investing in mutual funds and stocks that do not create any jobs in rural Min-

nesota, and right now that is a good business, the stock market is doing well.

Finally, many Minnesotans have decided to leave the State for the Sun Belt and its low-tax and no-tax States—I'm talking about income tax. The reality of this phenomenon is that these people tend to be a wealthier citizen who then become citizens of the Sun Belt, with the result that those of us left behind are picking up the income tax tab that they used to pay into the State budget.

What can be done to alleviate the problems of the small rural businessman in Minnesota? I am sure that there are no real easy answers. Truly many of our problems are within the State of Minnesota, and must be dealt with on that level. However, the Federal level of our Government should be concerned with restoring farm income to levels where they can make other than staple purchases of goods, and should also be concerned with liability insurance to small businesses at costs that they can afford.

Mr. HATCHER. Thank you, Mr. Anderson.

We will begin the questioning with Mr. Weber.

Mr. WEBER. Mr. Chairman, I appreciate that. I have a lot of questions, but I know and have talked individually with all these people.

We are running a little behind on time, and in fairness to the other panels that I want to give plenty of time to, and have you have an opportunity to hear, I am going to forego questioning, and let you two ask questions. I would say to our panelists and to the next panels, I am here for the next 3 or 4 days, but these two gentlemen have to catch a plane to Georgia tonight, and so we are going to end the hearing, unfortunately, at 3:30.

And, I would just ask you to keep in mind that, in fairness to the last panel, that we really need to try and restrict ourselves.

Mr. HATCHER. Right. Speaking of the last panel, one reason we have got to leave is the next plane is the last plane. There ain't no second plane out of the State. [Laughter.]

I will not ask any questions. I will tell you, Mr. Olsen, that I am familiar with the problems that meat producers are facing, and have already contacted Secretary Lyng to see if we cannot have a more orderly administration of their buy-out, and I know the impact. I have already talked to my farmers, so we will try to do that.

Mr. Ray.

Mr. RAY. Mr. Chairman, I am going to forego questions at this time, too, but I just want to tell you that I really appreciated the testimony. The reason that we are here is to pick up some sort of an idea that we might work on. We, as a group of people in the House of Representatives, are not going to produce any miracles, but each one of us can try to make a dent in the problems and concerns that affect America, and you certainly have zeroed in on some of those problems and concerns that we can focus on, and at least bring attention to, and to do the best we can to alleviate it to some degree.

Thank you, Mr. Chairman.

Mr. HATCHER. Thank you. And, I too would like to thank you for your time and your testimony.

[Applause.]

Mr. HATCHER. The second panel consists of Mr. Mike Hatch, State commerce commissioner, St. Paul; Mr. Lyle Onken, farmer, Balaton; and Mrs. Peggy Devos, Our Own Pork Pantry in Ghent, MN.

So, we have three on this panel, and their focus will be on "Special Problems Facing Rural Small Business," and we will begin, as we did before, with the same order in which you were introduced. Mr. Hatch.

**TESTIMONY OF MICHAEL A. HATCH, STATE COMMERCE
COMMISSIONER, ST. PAUL, MN**

Mr. HATCH. Good afternoon, Mr. Chairman.

Mr. WEBER. Mike, can you pull the microphone a little closer?

Mr. HATCHER. Mr. Hatch, I could tell from that suit and tie, you were from an urban area. [Laughter.]

Mr. HATCH. That's right. At least now I am.

Mr. Chairman and members of the subcommittee, my name is Mike Hatch. I am a commissioner of commerce for the State of Minnesota. We regulate banks, securities, insurance, real estate, and basically, all forms of financial industry.

The area that I was asked to speak on was the insurance issue, and certainly that does affect all forms of small business, and I think that it is important, speaking as an insurance regulator at the State level, that the Federal Government does become involved in this issue.

I understand, and having been to Washington a couple of times now, speaking, I am not sure it was in front of this committee, but at least one of the committees, Congressman Florio's committee, which is a Commerce Committee, New Jersey, he is a New Jersey Congressman.

Mr. WEBER. Florio, Congressman Florio.

Mr. HATCHER. Jim Florio.

Mr. HATCH. Well, that was close. All right. Very good.

Mr. WEBER. In this State we understand Anderson & Johnson—

Mr. HATCH. That's right. [Laughter.]

Mr. HATCHER. He is on the Energy and Commerce Committee I think, isn't he?

Mr. WEBER. They don't understand Anderson & Johnson in New Jersey. [Laughter.]

Mr. HATCH. I think it is important to stress on the insurance issue, that right now, the cost of insurance in this country exceeds the costs of taxes. It has just replaced it. It is now second and third, right behind food and shelter, and if you particularly look at the liability insurance issue, as it applies to any type of small business, they do not have the bargaining position to deal with insurance companies, particularly, when you are talking about small business, you are talking about rural Minnesota, you are talking about everything from liability on a turkey farm, which would be extremely difficult liability insurance to get, to the pork producers, pesticides. Banks have difficulty getting blanket bonds, municipalities, taverns, virtually any type of specialty business.

This is something that is a problem not just in this State, but throughout the country, and indeed not just in this country, but Canada and other areas where liability insurance is sold.

I think, at present, there is this great attempt to say, well, some of this is an explosion that just occurred in the last year, but frankly, speaking as a regulator, the problem has been there for many years, and the insurance cycle, the insurance business is cyclical, it is very much dependent upon investments, it is very much related to deregulation in the insurance industry, and indeed if you go back to the last 5 or 6 years, what we are paying for now is the tremendous fluctuation in interest rates and investments.

The same problems occurred in the insurance industry, in the property casualty area, that occurred in savings and loans and other parts of this country, California, Texas, Louisiana, Florida, in particular—broker deposits—I am sure that term is familiar to people on the committee. And, indeed, many banks. The story of Continental Illinois and Penn Square certainly relates back to vast investments that did not come in, and subsequent loss to the shareholders. It did not lose it to the depositors, because there was FDIC insurance. And, indeed, FSLIC insurance for the savings and loans. But, in property casualty insurance, there is no Federal mechanism or certainly no insurance mechanism to protect the policyholder.

And, I think one of the problems we see in the insurance market today is that is a question of a shortage, there is a gap between the availability of insurance, between the supply and the demand, of roughly \$5-\$7 billion, and this is the insurance industry's own estimates. It is based upon the net worth of the industry, which is estimated to be about \$63-\$64 billion. And, using what they have called a "premium surplus" limit on the amount of insurance that can be sold, they have geared it to say, or basically estimated to say, that there is a shortage.

Well, any time you are dealing with a deregulated sector of the economy, such as insurance, where rates are not set, there is no antitrust law, there is no regulation with regard to excessive rating. Basically what happens is that that shortage is going to occur in specialty areas. And, it is any area, for instance in this State, where there is less than 5,000 policyholders, again: Municipalities, any type of professional malpractice, the architects, surveyors, doctors, hospitals, any type of business that is small or specialty in nature, amusement parks, again, a certain type of farming, and the ultimate problem is that we have seen anything from 200-percent to 1,000-percent increases literally occurring in one week.

One of the problems I think is that there has to be some—and this is not uncommon due to a deregulated atmosphere, that is fine, it has happened in airlines, we know it in rural America just by what is happening in the transportation industry, be it trucking, airlines, or railroad, in terms of obviously the competition going where the demand for the product is.

The problem is in insurance in many cases, it is truly a necessity. You cannot open up a tavern, you cannot operate many businesses without having insurance in order to get the loan from the bank or to get a certificate of authority from either a municipality or the State. And, as a result, if there is only one carrier selling

the insurance, for instance, it is cheaper today for airlines, right? \$99—you can get from L.A. to New York, but it is very difficult to get from Marshall to Minneapolis any more by flight, the theory being, of course, "Well, you know that's deregulation, and it's a luxury and you can get into a car and drive," and all that sort of thing. Well, whether that is right or wrong, that is the prevailing theory in this country.

The problem with insurance is it is a necessity. You have to have it. We are dealt with a situation where most parts, in fact in all parts of this country, you may find one or two carriers dictating the entire market.

I do think, No. 1, there ought to be a repeal with regard to exemption of the antitrust laws that apply to insurance. About the only industry I am aware of, other than baseball, that has that exemption. And, No. 2, I do think there ought to be some form of Federal regulation. I find it interesting that I regulate banks and I do have the assurance in knowing that even though we do not have interstate banking in this State—I realize that in Georgia that there is—but, in this State we do not, as of yet, that we still know that if we get a check from an Arizona bank or from a South Dakota bank, we still know that the safety and soundness of those banks are run with the same integrity that exist in this State, primarily due to uniform regulation by the Federal Reserve Bank, the FDIC, the Office of the Comptroller.

But, in insurance, well, it is indeed international in character. Companies sell from one State to the next, a very common practice. We have no idea what the safety and soundness of those institutions are, and indeed in many cases some States have no examiners, some States have no CPA requirements, some States, perhaps the company may be too close to the regulatory authority, and problems do occur.

And, I do think that there ought to be some uniform regulation in that area.

That is all I wanted to contribute to it, but I do think that it has got to be stabilized, and I do think that any time you talk about an industry that is jacking up rates by 200 percent that it does demand the attention of people. It is literally closing businesses in this State and throughout the country.

Mr. HATCHER. Thank you, Mr. Hatch.

[Mr. Hatch submitted the following material:]

minnesota
news from **COMMERCE**
department

FOR IMMEDIATE RELEASE

April 11, 1986

For further information
please contact:
Kris Eiden: 612/296-6325

Minnesota Commerce Commissioner Michael Hatch today reminded area farmers that the new 1986 Minnesota Farm Loan Interest Buy-Down Program is in operation and available to provide assistance to Minnesota farmers having credit problems because of the current cost-price squeeze. The programs are part of the 1986 Family Farm Assistance Act passed by the Legislature and signed into law by Governor Rudy Perpich on March 21, 1986.

Hatch noted that the 1986 state/lender interest subsidy programs are similar to the programs run by the Commerce Department last year. "However, the operating loan program has been changed to provide more assistance to more farmers faced with credit and cash flow problems," said Hatch.

Hatch stated that the Commerce Department had mailed application forms and guidelines to all Minnesota lenders and farm organizations last week. "I believe we will see added interest from lenders this year," said Hatch. "We have already received over 200 applications for assistance."

Hatch noted that Program #2, which provides subsidies on 1986 operating loans, is available for loans written between January 1 and December 30, 1986. Borrowers who qualify will have one-half of their interest paid through a combination of state and lender subsidies. Loans may include original, extended or renegotiated operating loans or lines of credit
(more)

5th Floor, Metro Square Building, 7th and Robert Streets, St. Paul, Minnesota 55101

of up to \$100,000 per borrower. To be eligible, the farm borrower must have a debt-to-asset ratio of 50 percent or greater. The loan notes or advances also must be written to come due no later than June 30, 1987.

Program #1, designed to provide debt restructuring assistance on existing loans, will again provide a 120-day interest subsidy to farmers who seek debt restructuring through the USDA Farmers Home Administration. The state will pay a subsidy equal to 60-days interest, while the current lender will be required to forego 60-days interest if the loan is accepted for an FmHA guarantee.

Hatch noted that the Minnesota Farm Loan Interest Buy-Down Programs are designed to provide assistance which is in addition to other programs available through the federal government. Hatch encouraged farmers who may be eligible for FmHA assistance to contact the local county office for details on these programs.

Hatch noted that applications for state interest subsidies must be received through a farm lender. "Because the program is designed to encourage lenders to find ways of continuing to work with their farm customers, lender participation in the program is essential," Hatch stated.

"Any farmer interested in taking advantage of the state program should discuss their plans with their lender as soon as possible. The lenders have the forms and we are ready to process them," said Hatch.

#

**State of Minnesota
1986 Family Farm Assistance Act
Program #2
Operating Loan Program**



**Guidelines,
Application
and
Agreement**

Program #2
Operating Loan Program
(612) 296-4521

To Whom It May Concern:

On March 21, 1986, Governor Rudy Perpich signed the 1986 Family Farm Assistance Act which includes two interest buydown programs: "Program #1 addresses restructuring of existing operating and real estate loans; "Program #2 addresses 1986 farm operating loans.

This form contains the application, guidelines and agreement for "Program #2, the operating loan program. The program is designed to be an additional resource to farmers, and does not restrict the borrower from participating in similar federal programs.

Please fill out the application on this form and have the borrower, as well as an officer of the lender review and sign the application. All questions, except questions in Part 4, must be answered "yes" for the operating loan to qualify for the program.

Please also have the lender and the borrower review the agreement set forth in this form. If the provisions are acceptable, the lender and borrower must sign the agreement and submit it to the address set forth on the last page. Since the agreement is not complete until I sign it, the agreement until that time is deemed to be an "offer."

The Department has five days to review the agreement after it is received. If the agreement and application are in order, I will sign the agreement and mail copies of the fully executed agreement to the borrower and lender. The lender may request that 50% of the state's portion of the interest subsidy be paid within 30 days after the date of the application, with the remainder due 30 days after the request for final payment is received.

If you have any questions about the program, please call the Department of Commerce at the above telephone number.

Very truly yours,

Michael A. Hatch
Commissioner of Commerce

(Print or type) (Guidelines: To qualify, all questions must be answered "Yes".)

11. Name	12. Federal I.D.#	13. County
14. Address	15. Officer signing below	15. Telephone # ()

17. Is the lender: a) a state chartered bank, or b) a national bank, or c) a member of the farm credit system, or d) a savings and loan association, or	e) a credit union, or f) The Federal Deposit Insurance Corporation, or g) other financial institution granted participating status by the Commissioner?	Yes No
18. If the lender requires, or the borrower chooses to attend an adult farm management program approved by the Department of Commerce, does the lender agree to pay one-half of the enrollment and tuition cost? (A list of such programs is available to each financial institution.)		Yes No
19. Does lender agree to receive and evaluate loan applications from any farmer who has transacted farm-related borrowing with the lender within the prior three years, from farmers who have not previously established farm-related borrowing, or from farmers whose previous lender is no longer in the business of making farm-related loans?		Yes No

(Print or type) (Guidelines: To qualify, all questions must be answered "Yes.")

21. Name (First) (Middle) (Last)		22. Social Security #	
23. Address (Route, Post Office, State, Zip)		24. County	25. Telephone # ()
26. Residence of domicile status. Is borrower: a) If individual, a resident of Minnesota, or b) If partnership, is 50% of interest owned by Minnesota residents, or c) If corporation, is it a Minnesota family-owned corporation under Minn. Stat. §550.24?			
27. Has the lender determined that the debt-to-asset ratio of the farmer exceeds 50% at the time of the loan application?			

(Print or type) (Guidelines: To qualify, all questions must be answered "Yes.")

31.	Is the loan to be used solely for financing 1986 farm operating expenses, which may include the extension or renegotiation of existing operating loans?	☐	☐
32.	Is this loan used solely for Minnesota farming property?	☐	☐
33.	Does lender believe that borrower has reasonable opportunity for long-term financial viability in the farmer's current farm operation?	☐	☐
34.	Does the lender certify that the borrower is not paying any additional points, finders fees, service charges or other compensation to the lender, an affiliate of the lender, or anyone else for the processing of this application?	☐	☐
35.	Does the lender agree not to foreclose any loan of the borrower which would cause this loan not to be used for farm operating expenses during the 1986 season?	☐	☐
36.	Is the date of the loan application after January 1, 1986, and prior to December 30, 1986?	☐	☐
37.	Is the loan due and payable prior to July 1, 1987?	☐	☐

38. If the Commissioner accepts this application and agreement, what is the effective interest rate per annum to be paid by the borrower on the loan? (The effective interest rate to be paid by the borrower is the contract interest rate less 37.5% paid by the State and less 12.5% foregone by the lender. E.g., 12% note rate-4.5% state subsidy-1.5% lender subsidy = 6% effective interest rate to borrower.) _____ %

39. Multiply the amount on line 38 by 2: _____ %

40. Is the rate of interest set forth on line 39 equivalent to that offered to other farmers having similar security and financial status? ☐ Yes ☐ No

41. What is the Commissioner's index rate at the time the loan is made? (Commissioner's index rate for Jan. is 13.6, Feb. is 13.6, Mar. is 13.6, and Apr. is 13.6.) (Call (612) 297-2851 for each month's rate.) _____ %

42. Is the rate of interest set forth on line 39 equal to or less than the Commissioner's index rate set forth on line 41? ☐ Yes ☐ No

43. What is the total principal amount of the loan? (Omit cents) \$ _____

44. Insert the amount on line 43 or \$100,000, whichever is less: (Omit cents) \$ _____

45. Insert the interest rate on line 38 _____ %

46. Multiply the interest rate on line 45 by the amount on line 44: \$ _____

47. Multiply the amount on line 46 by .75 (This is the amount of subsidy the State of Minnesota will pay if the loan is of one-year duration) \$ _____

48. Divide the amount set forth on line 47 by 12. (This is the monthly portion of the State subsidy) \$ _____

49. Set forth the number of months from inception to maturity of the note: (Date of the loan to maturity date should be scheduled in whole months.) _____

50. Multiply the amount on line 48 by the number of months on line 49. (This is the State portion of the subsidy if the loan is paid at maturity.) \$ _____

4. Request for Payment

(A "No" answer will not disqualify this application.)

Does lender request payment for 50% of the amount on line 50? ☐ Yes ☐ No

5. Certification by Lender and Borrower:

A. Lender:

I certify that I have read this entire application, that I am authorized by the lender to certify this application, that the answers above are true, complete and correct to the best of my knowledge and belief, and that I know the State and borrower will rely on the representations made in this application and agreement.

I understand that false misrepresentation or fraud in this application may be punishable as a crime under M.S. §609.82.

Date: _____

Subscribed and sworn to before
me this _____ day of
_____, 1986

Lender _____

By: _____

Notary Public _____

B. Borrower:

I certify that I have read this entire application, that I am authorized by the borrower (if partnership or corporation) to certify this application, that the answers above are true, complete, and correct to the best of my knowledge and belief, and that I know the State and Lender will rely on the representations made in this application and agreement.

I understand that false misrepresentation or fraud in this application may be punishable as a crime under M.S. §609.82.

Date: _____

Subscribed and sworn to before
me this _____ day of
_____, 1986

Notary Public _____

Borrower _____

By: _____

(if corporation or partnership)

Address of Signer _____

{ }

Telephone Number of Signer _____

AGREEMENT

Lender: _____ Borrower: _____

LENDER, BORROWER AND STATE OF MINNESOTA AGREE TO THE FOLLOWING:

1. State shall pay LENDER, subject to paragraph #8, the sum of \$ _____.
(Fill in the amount on line 50.)
2. LENDER shall issue a farm operating loan to BORROWER in the amount of \$ _____.
(fill in the amount on line #43.)
3. LENDER shall charge the BORROWER an effective interest rate of _____%. (Fill in the amount on line #38.)
4. a. LENDER shall pay for 50% of enrollment and tuition costs incurred by BORROWER WHO ELECTS TO ATTEND AN ADULT FARM MANAGEMENT PROGRAM APPROVED BY THE Commissioner.
b. If required by the LENDER, the BORROWER agrees to enroll in an adult farm management program if offered not more than 50 miles from the farmer's residence.
5. LENDER shall not charge BORROWER any additional points, finders fees, service charges or other fee for the making of this loan or the processing of this application.
6. LENDER shall not commence foreclosure on any other loan owed by BORROWER which would cause this loan not to be used for farm operating expenses during 1986.
7. LENDER and BORROWER agree and certify that all information on this attached application is true, complete and correct to the best of their individual knowledge and belief, and that such applications are incorporated as part of this agreement.
8. LENDER agrees that the amount in paragraph #1 above shall be prorated to an amount consistent with the actual manner of repayment on the note prior to maturity.
9. LENDER agrees to provide a reduction in interest cost equal to one-third of the subsidy to be paid to the LENDER by the State.
10. LENDER and BORROWER agree that their books, records, and accounting procedures and practices relevant to this agreement are subject to examination by the Commerce Department and the Legislative Auditor.

Date: _____

Lender _____

Date: _____

Borrower _____

(if corporation or partnership)

Commissioner of Commerce:

By (authorized signature)
Date

As to form and execution by the

Attorney General:

By
Date

Commissioner of Administration:

By (authorized signature)
Date

Please make copies for Lender's and Borrower's records, and forward the original, to:

Program #2, Operating Loan Program
State of Minnesota, Department of Commerce, Metro Square Building, Fifth Floor, St. Paul, Minnesota, 55101

If you have questions, please call: (612) 296-4521

PLEASE NOTE

Remember: All questions, with exception of part 4, must be answered "yes". If any such answer is no, please do not mail in. If you question whether the appropriate answer is "yes", contact the Department at the above telephone number. The Department is not authorized, however, to waive or amend either this agreement or the application.

State of Minnesota
1986 FAMILY FARM ASSISTANCE ACT
Instructions for Completing Application and Agreement Forms
Program #2
Operating Loan Program



Dear Lender:

The 1986 Minnesota Legislature passed and Governor Rudy Perpich signed, on March 21, 1986, the 1986 Family Farm Assistance Act which includes the 1986 Farm Loan Interest Buy-Down Programs.

Program #1 addresses the restructuring of existing operating and real estate loans. This program is essentially the same as the 1985 loan restructuring program.

Program #2, which provides state and lender interest subsidies on 1986 operating loans, has undergone **some important changes from last year**. We have attempted to keep the 1986 application form clear and concise. However, please take note of the changes and guidelines to assure that you understand and meet the new requirements.

The application form, which includes guidelines, is structured so that "yes" answers to all questions (with the exception of Part 4) will qualify your applicant for the program.

Under Part 1, Lender Information, please note that if the lender requires ~~or~~ the borrower chooses to enroll in an adult farm management program, the lender must agree to pay one-half of the tuition and enrollment costs. Lenders may not, however, require enrollment in a program that is more than 50 miles from the borrower's residence. A list of adult farm management programs approved by the Departments of Commerce and Agriculture is included in this packet.

NOTE: Loans written between January 1, 1986 and December 30, 1986 will be eligible for Program #2 interest buy-down subsidies. The farm operating loan may be an original, extended, or renegotiated loan or line of credit for the purposes of financing the operations of a Minnesota farm. The Program #2 subsidy will be paid on no more than \$100,000 of an applicant's total operating loan proceeds. **The term of the loan must be written to come due prior to July 1, 1987.** Further, subsidies in excess of those calculated on the original application will not be authorized. Program funds are limited this year and exceptions to the law or program guidelines cannot be allowed.

We have included the Commissioner's Index Rate for January through April, 1986, on the application form. Index Rates for subsequent months may be obtained through the phone number included on the form. This is the maximum rate against which interest subsidies can be calculated. Remember to use the rate in effect during the month the loan is written.

Also attached is a sample Application and Agreement Form that may serve as a useful guide for completing your paperwork. (The sample form was prepared using a 6% effective loan rate, a \$100,000 principal amount, and an 18-month term.)

Accurate completion of application and agreement forms is essential for qualification and efficiency of processing. Please be sure to check the following items before submitting your forms:

- All questions (except Part 4) must be answered "yes."
- The loan is written between January 1 - December 30, 1986.
- The loan must be due and payable prior to July 1, 1987.
- The amount of state interest subsidy requested in the original application is the **maximum** amount that will be paid. A 50% initial subsidy payment may be requested in the original application (Part 4).
- The Lender must agree to pay one-half the tuition and enrollment costs for any applicant who is required or wishes to participate in an adult farm management program.

Finally, it is important to note that the 1986 Farm Loan Interest Buy-Down Programs are designed to be an additional source of assistance to farm borrowers. Participation in the state program does not exclude lenders and borrowers from applying for similar federal programs. For further information on federal program requirements, you are encouraged to contact your local Farmers Home Administration office.

If you have questions that are not addressed in this letter or in the program application forms and guidelines, please contact the Minnesota Department of Commerce at (612)296-4521 during regular business hours.

Very truly yours,



Michael A. Hatch
Commissioner of Commerce

State of Minnesota
1986 Family Farm Assistance Act
Department of Commerce
Metro Square Building
Fifth Floor
St. Paul, Minnesota 55101
(612) 296-4521

Program #2
1986 Operating Loan Program

APPLICATION

SAMPLE

3. Information on 1986 Operating Loan

(Print or type) (Guidelines: To qualify, all questions must be answered "Yes.")

	Yes	No
31. Is the loan to be used solely for financing 1986 farm operating expenses, which may include the extension or renegotiation of existing operating loans?	☒	☐
32. Is this loan used solely for Minnesota farming property?	☒	☐
33. Does lender believe that borrower has reasonable opportunity for long-term financial viability in the farmer's current farm operation?	☒	☐
34. Does the lender certify that the borrower is not paying any additional points, finders fees, service charges or other compensation to the lender, an affiliate of the lender, or anyone else for the processing of this application?	☒	☐
35. Does the lender agree not to foreclose any loan of the borrower which would cause this loan not to be used for farm operating expenses during the 1986 season?	☒	☐
36. Is the date of the loan application after January 1, 1986, and prior to December 30, 1986?	☒	☐
37. Is the loan due and payable prior to July 1, 1987?	☒	☐

* * *

38. If the Commissioner accepts this application and agreement, what is the effective interest rate per annum to be paid by the borrower on the loan? (The effective interest rate to be paid by the borrower is the contract interest rate less 37.5% paid by the State and less 12.5% foregone by the lender. E.g., 12% note rate-4.5% state subsidy-1.5% lender subsidy = 6% effective interest rate to borrower.)	6%
39. Multiply the amount on line 38 by 2:	12%
40. Is the rate of interest set forth on line 39 equivalent to that offered to other farmers having similar security and financial status?	☒ Yes ☐ No
41. What is the Commissioner's index rate at the time the loan is made? (Commissioner's index rate for Jan. is 13.6, Feb. is 13.6, Mar. is 13.6, and Apr. is 13.6.) (Call (612) 227-2851 for each month's rate.)	13.6%
42. Is the rate of interest set forth on line 39 equal to or less than the Commissioner's index rate set forth on line 41?	☒ Yes ☐ No
43. What is the total principal amount of the loan? (Omit cents)	\$100,000
44. Insert the amount on line 43 or \$100,000, whichever is less. (Omit cents)	\$100,000
45. Insert the interest rate on line 39	6%
46. Multiply the interest rate on line 45 by the amount on line 44:	\$6,000
47. Multiply the amount on line 46 by .75 (This is the amount of subsidy the State of Minnesota will pay if the loan is of one-year duration)	\$4,500
48. Divide the amount set forth on line 47 by 12. (This is the monthly portion of the State subsidy):	\$375
49. Set forth the number of months from inception to maturity of the note. (Date of the loan to maturity date should be scheduled in whole months.)	18
50. Multiply the amount on line 48 by the number of months on line 49. (This is the State portion of the subsidy if the loan is paid at maturity.)	\$6,750

**State of Minnesota
1986 Family Farm Assistance Act
Program #1
Loan Restructuring Program**

**Application
and
Agreement**



Department of Commerce
Metro Square Building
Fifth Floor
St. Paul, Minnesota 55101

Program #1
Loan Restructuring Program
(612) 296-4521

APPLICATION

I. Lender Information

(Print or type) (To qualify, all questions must be answered "yes")

A. Name	B. Federal I.D. #	C. County	
D. Address	E. Officer signing below	F. Telephone # ()	
G. Is the lender: 1. a state chartered bank, or 2. a national bank, or 3. a member of the farm credit system, or 4. Savings and Loan Association, or 5. Credit Union, or 6. Federal Deposit Insurance Corporation			YES NO ☐ ☐
H. If application is accepted by Commissioner, does lender agree to review its loan portfolio and determine all of its classified farm loans within 60 days from date of Commissioner's acceptance of this application?			☐ ☐
I. If answer to previous question is yes, does lender agree to determine which of those classified loans shall be submitted to the Farmers Home Administration for appropriate restructuring and guarantees?			☐ ☐
J. Has lender applied to be, or been accepted, as an "Approved Lender" with the Farmers Home Administration?			☐ ☐

II. Borrower Information

(Print or type) (To qualify, all questions must be answered "yes")

A. Name of Borrower (first) (middle) (last)	B. Social Security or Fed. I.D.	
C. Complete address (Route, Post Office, State, Zip)	D. County	E. Telephone # ()
F. Residence or domicile status: Is borrower: 1. If individual, a resident of Minnesota, or 2. If partnership, is 50% of interest owned by Minnesota residents, or 3. If corporation, is it a Minnesota family farm operation under Minn. Stat. 500.24?		

☐ ☐

III. Information on Existing Operating Loan Between Lender and Borrower.
(Print or type) (To qualify, all questions must be answered "Yes")

	YES	NO
A. Was the original loan made for the purpose of operating expenses on Minnesota farming property?	☐	☐
B. Was the loan actually used for operating expenses on Minnesota farming property?	☐	☐
C. Will the borrower be operating Minnesota farming property in 1986?	☐	☐
D. Does the borrower currently own or lease the land for which the operating loan was used?	☐	☐
E. Has lender applied to have the loan restructured by the Farmers Home Administration? (The loan need not be approved by the FmHA, it need only be submitted to it.)	☐	☐
F. Is the lender likely to sustain some loss on the loan if the borrower's paying capacity, net worth, or collateral is not improved?	☐	☐
G. Has the lender refrained from commencing action to foreclose on loan?	☐	☐
H. Does the lender agree to refrain from commencing action to foreclose on the loan during the shorter of the following two time periods? 1. Until the Farmers Home Administration approves or denies the loan restructuring application referred to in question III (E), or 2. 90 days from the date the Commissioner signs the agreement on this form.	☐	☐
I. What is the current principal balance on the existing operating loan? (Do not include accrued or capitalized interest.) (Omit cents)	\$ _____	
J. What is the interest rate per annum on the existing operating loan? (If a variable rate, this is the rate in effect on the date this application is made.)	% _____	
K. Insert the amount on line III (I), or \$25,000, whichever is less. (Omit cents)	\$ _____	
L. Multiply the amount on line III (K) by the interest rate on line III (J). (Omit cents)	\$ _____	
M. Multiply the amount on line III (L) by 16.44%. (Omit cents)	\$ _____	
N. If this application is accepted by the Commissioner, the State will pay lender the amount set forth on line III (M). Does the lender agree to apply the amount as interest paid on the operating loan for the 60 days immediately following the date this agreement is signed the Commissioner?	☐	☐
O. If this application is accepted by the Commissioner, the State will pay lender the amount set forth on line III (M). In consideration of this payment, does the lender agree that, if the Farmers Home Administration does not approve the restructured loan pursuant to the application in question III (E), the lender will forgive and release borrower of an amount of interest equal to the amount paid by the State?	☐	☐
P. If answer to question III (O) is yes, will lender credit this amount to the interest due on the loan for the 60 days immediately following the 60 days referred to in question III (N)?	☐	☐

IV. Information on Existing Real Estate Loan Between Lender and Borrower.
(Print or type) (To qualify, all questions must be answered "Yes")

A. Was the original loan made for the purpose of purchasing Minnesota farming property?	☐	☐
B. Was the loan actually used for the purchase of Minnesota farming property?	☐	☐
C. Does the borrower intend to operate farming property during 1986?	☐	☐
D. Has lender applied to have the loan restructured by the Farmers Home Administration? (The loan need not be approved by the FmHA. It need only be submitted to it.)	☐	☐
E. Is the lender likely to sustain some loss on the loan if the borrower's paying capacity, net worth, or collateral is not improved?	☐	☐
F. Has the lender refrained from commencing action to foreclose on the loan?	☐	☐
G. Does the lender agree to refrain from commencing action to foreclose on the loan during the shorter of the following two time periods? 1. Until the Farmers Home Administration approves or denies the loan restructuring application referred to in question IV (D), or 2. 90 days from the date the Commissioner signs the agreement on this form.	☐	☐
H. What is the current principal balance on the existing real estate loan? (Do not include accrued or capitalized interest.) (Omit cents)	\$ _____	



OFFICE OF THE COMMISSIONER

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
ST. PAUL 55101

500 METRO SQUARE BUILDING
ST. PAUL, MN 55101

Program #1
Loan Restructuring Program
(612)296-4521

To Whom It May Concern:

On March 21, 1986, Governor Rudy Perpich signed the 1986 Family Farm Assistance Act. The Act establishes two interest buydown programs: "Program #1" addresses existing loan restructuring; "Program #2" addresses farm operating loans.

This form contains the application and agreement for "Program #1," the existing farm loan restructuring program.

Please fill out the application on this form and have the borrower, as well as an officer of the lender, review and sign the application. All questions must be answered "yes" for the existing loan to qualify for the program.

Please also have the lender and borrower review the agreement set forth in this form. If the provisions are acceptable, the lender and borrower must sign the agreement and submit it to the address set forth on the last page. Since the offer is not complete until I sign it, the agreement until that time is deemed to be an "offer."

The Department has five days to review the agreement after it is received. If the agreement and application are in order, I will sign the agreement and mail copies of the fully-executed agreement to the borrower and lender. Within five days a draft for the amount indicated in the agreement will be mailed to the lender.

The lender should be aware that this agreement is binding once it is executed by me, whether or not the draft is accepted by the lender. Any foreclosure action during the periods agreed to in the agreement may subject the lender to an action for breach of contract by the State of Minnesota and the borrower, to an action for slander of title by the borrower, or to criminal prosecution by the State. The lender must also fulfill all other conditions set forth in the agreement.

If you have any questions about the state loan restructuring program, please call the Department of Commerce at the above telephone number. Questions regarding the Farmers Home Administration (FmHA) loan guarantee programs should be directed to the FmHA State Office at (612)725-5842.

Very truly yours,

Michael A. Hatch
Michael A. Hatch
Commissioner of Commerce

	YES	NO
I. What is the interest rate per annum on the existing real estate loan? (If a variable rate, this is the rate in effect on the date this application is made.) _____ %		
J. Insert the amount on line IV(H), or \$25,000, whichever is less. (Omit cents) _____ \$		
K. Multiply the amount on line IV(J) by the interest rate on line IV(I). (Omit cents) _____ \$		
L. Multiply the amount on line IV(K) by 18.44%. (Omit cents) _____ \$		
M. If this application is accepted by the Commissioner, the State will pay the lender the amount set forth on line IV(L). Does the lender agree to apply the amount as interest paid on the real estate loan for the 60 days immediately following the date this agreement is signed by the Commissioner?	☐	☐
N. If this application is accepted by the Commissioner, the State will pay the lender the amount set forth on line IV(L). In consideration of this payment, does the lender agree that, if the Farmers Home Administration does not approve the restructured loan pursuant to the application in question IV(D), the lender will forgive and release the borrower of an amount of interest equal to the amount paid by the State?	☐	☐
O. If the answer to question IV(N) is yes, will lender credit this amount to the interest due on the loan for the 60 days immediately following the 60 days referred to in question II(M)?	☐	☐

V. Certification by Lender and Borrower:

A. Lender:

I certify that I have read this entire application, that I am authorized by the lender to certify this application, that the answers above and in the attached FmHA application are true, complete and correct to the best of my knowledge and belief, and that I know the State and borrower will rely on the representations made in this application and agreement.

I understand that false misrepresentation or fraud in this application or the attached FmHA application may be punishable as a crime under M.S. § 609.82.

Date: _____

Lender

Subscribed and sworn to before me this _____ day of _____, 1986

By: _____

Notary Public

B. Borrower:

I certify that I have read this entire application, that I am authorized by the borrower (if partnership or corporation) to certify this application, that the answers above and in the attached FmHA application are true, complete, and correct to the best of my knowledge and belief, and that I know the State and Lender will rely on the representations made in this application and agreement.

I understand that false misrepresentation or fraud in this application or the attached FmHA application may be punishable as a crime under M.S. § 609.82.

Date: _____

Borrower

Subscribed and sworn to before me this _____ day of _____, 1986

By: _____

(If corporation or partnership)

Address of Signer

()

Telephone Number of Signer

Notary Public

AGREEMENT

(Program #1)

Lender: _____ Borrower: _____

Lender, Borrower and the State of Minnesota agree to the following:

1. State shall pay lender \$_____ (fill in amount on line III (M) on borrower's operating loan) and \$_____ (fill in amount on line IV (L) on the borrower's farm real estate loan, copies of which loan(s) are attached as Exhibit A.)
2. Lender shall submit, before or contemporaneously with the submission of this agreement, the attached loan(s) to the Farmers Home Administration for restructuring and guarantees.
3. Lender has become certified as, or has applied for certification as, an "Approved Lender" with the Farmers Home Administration.
4. Lender shall review its loan portfolio and within 60 days determine all farm loans which have a substantial risk of nonpayment, and lender agrees to determine which of these loans it shall submit to the Farmers Home Administration for restructuring and guarantees.
5. Lender shall apply the State's payment as and for interest on the loan(s) for the 60 days due and payable the date the Commissioner signs this agreement.
6. Lender has not commenced foreclosure proceedings on the loan(s) attached hereto.
7. Lender shall not commence foreclosure proceedings on the loan(s) attached hereto until the Farmers Home Administration accepts or rejects the loan application described in paragraph 2 above and has so certified such FmHA action to the commissioner or until 90 days from the date the Commissioner signs this agreement, whichever occurs first.
8. If the Farmers Home Administration rejects the application, the lender shall forgive and release an amount of interest on the attached loan(s) equal to the amounts set forth in paragraph 1 above, which amount shall be credited to interest due on the loan for 60 days immediately following the 60 days set forth in paragraph 5 above.
9. Commissioner shall issue the draft for the amount set forth in paragraph 1 within 5 days after the Commissioner has signed the agreement. If acceptable and complete, the Commissioner shall sign this agreement within 5 days after it is received by the State.
10. Lender and borrower agree and certify that all information on the attached application and the attached Farmers Home Administration application is true, complete and correct to the best of their individual knowledge and belief, and is incorporated as part of this agreement. Lender agrees that the State and borrower may rely upon the statements made in the application.
11. Lender and borrower agree that their books, records and accounting procedures and practices relevant to this agreement are subject to examination by the Commerce Department and the Legislative Auditor.

Date: _____

Lender _____

Date: _____

Borrower _____

Date: _____

(if corporation or partnership)

Commissioner of Commerce:

By (authorized signature)

Date

As to form and execution by the
Attorney General:

By

Date

PLEASE ATTACH:

1. Copy of loan application(s) to the Farmers Home Administration.
2. Copy of "Approved Lender" application to the Farmers Home Administration. (Or if approved, of the "Approved Lender" Certificate.)

Please make copies for lender's and borrower's records, and forward the original, with the above described attachments, to:
Program #1, Loan Restructuring Program
State of Minnesota, Department of Commerce, Metro Square Building, Fifth Floor, St. Paul, Minnesota 55101

If you have questions, please call: (612)296-4521.

PLEASE NOTE

To qualify, all questions _____ must be answered "yes". If any such answer is incorrect, do not mail in. If you question whether the appropriate answer is "yes", contact the Department at the above telephone number. The Department is not authorized, however, to waive or amend either this agreement or the application.

LAWS OF MINNESOTA 1986

CHAPTER 398

ARTICLE 23

FARM LOAN INTEREST BUY-DOWN

Section 1. [DEFINITIONS.]

Subdivision 1. [APPLICABILITY.] The definitions in this section apply to sections 1 to 9.

Subd. 2. [APPROVED ADULT FARM MANAGEMENT PROGRAM.] "Approved adult farm management program" means a farm management training program designed for persons currently engaged in farming that has been approved by the commissioner under section 4, subdivision 4.

Subd. 3. [COMMISSIONER.] "Commissioner" means the commissioner of commerce.

Subd. 4. [COMMISSIONER'S INTEREST INDEX.] "Commissioner's interest index" means an interest rate that is three percent above the current lending rate of the Federal Interest Credit Bank to production credit associations as certified each month by the commissioner.

Subd. 5. [ELIGIBLE BORROWER.] "Eligible borrower" means a farmer who applies to a lender for a farm operating loan between the dates January 1, 1986, and December 30, 1986, and who meets all qualifications established in section 2 and any further qualifications that may be established in the program guidelines adopted by the commissioner under section 4, subdivision 1.

Subd. 6. [FARM OPERATING LOAN.] "Farm operating loan" means an original, extended, or renegotiated loan or line of credit obtained by a farmer from a lender for the purpose of financing the operations of a farm. A farm operating loan includes an open line of credit even though the maximum principal amount of the line of credit may not be drawn at any one time. A farm operating loan eligible for interest rate buy-down must have a maturity date of June 30, 1987, or earlier.

Subd. 7. [FARMER.] "Farmer" means a state resident or a domestic family farm corporation as defined in section 500.24, subdivision 2, operating a farm within the state.

Subd. 8. [INTEREST RATE BUY-DOWN; BUY-DOWN.] "Interest rate buy-down" or "buy-down" means a reduction in the effective interest rate on a farm operating loan made pursuant to sections 1 to 9 to an eligible borrower due to partial payment of interest costs by the commissioner and partial payment of interest costs by the participating lender.

Subd. 9. [LENDER.] "Lender" means a bank, a credit union,

or a savings and loan association chartered by the state or federal government, a unit of the farm credit system, the federal deposit insurance corporation, and other financial institutions that the commissioner deems appropriate.

Subd. 10. [PARTICIPATING LENDER.] "Participating lender" means a lender who has been granted participating lender status by the commissioner.

Sec. 2. [FARMER ELIGIBILITY.]

Subdivision 1. [DEBT-TO-ASSET RATIO.] Only a farmer with a debt-to-asset ratio exceeding 50 percent at the time of application for a farm operating loan is an eligible borrower for purposes of interest rate buy-down. The debt-to-asset ratio of a farmer must be determined by the lender. A debt-to-asset ratio determined by a lender is deemed to be reasonable and accurate without further audit or substantiation.

Subd. 2. [ASSESSMENT OF CONTINUED VIABILITY.] Only a farmer determined by the lender to have a reasonable opportunity for long-term financial viability in the farmer's current farm operation is an eligible borrower. A determination of financial viability by a lender is deemed to be reasonable and accurate without further audit or substantiation.

Subd. 3. [ENROLLMENT IN ADULT FARM MANAGEMENT PROGRAM.] To be an eligible borrower, a farmer must agree to enroll in an approved adult farm management program offered not more than 50 miles from the farmer's residence if enrollment is a condition of receiving a farm operating loan from a participating lender.

Sec. 3. [LENDER ELIGIBILITY.]

Subdivision 1. [ELIGIBLE PARTICIPATING LENDER STATUS.] A lender who meets all requirements established by the commissioner must be certified as a participating lender.

Subd. 2. [PARTIAL PAYMENT FOR ADULT FARM MANAGEMENT TRAINING.] A participating lender must agree to pay one-half of the enrollment and tuition costs of an approved adult farm management program for an eligible borrower approved by the commissioner for interest rate buy-down. A participating lender is not required to assist with enrollment or tuition costs for a period longer than the term of the farm operating loan, and a lender is not required to assist with the enrollment and tuition costs for more than one individual for each farm operating loan.

Sec. 4. [RESPONSIBILITIES OF THE COMMISSIONER.]

Subdivision 1. [ADOPTION OF PROGRAM GUIDELINES.] Within 30 days after the effective date of sections 1 to 9, the commissioner shall adopt and make available to any interested party guidelines for the interest rate buy-down program

established in sections 1 to 9. To the maximum extent practicable, the commissioner shall adopt guidelines that coordinate the state program with any federal farm financial relief program and make benefits of the state interest rate buy-down program additive to the federal program. The commissioner may adopt program guidelines without regard to chapter 14.

Subd. 2. [PREPARATION AND DISTRIBUTION OF LENDER PARTICIPATION FORMS.] The commissioner shall prepare and distribute to all lenders in the state forms and instructions for the program.

Subd. 3. [PREPARATION AND DISTRIBUTION OF LOAN APPLICATION FORMS.] The commissioner shall prepare and distribute to all participating lenders forms and instructions to be used in applying for state interest rate buy-down payments.

Subd. 4. [APPROVAL OF ADULT FARM MANAGEMENT PROGRAMS.] The commissioner, in consultation with the commissioner of agriculture, shall prepare and distribute to all participating lenders a list of adult farm management training programs approved for eligible borrowers.

Subd. 5. [REVIEW OF APPLICATIONS FOR BUY-DOWN PAYMENT.] The commissioner must review within five working days of submission by a participating lender a properly completed application for interest rate buy-down payments on a farm operating loan made to a farmer. If a qualified lender does not receive written notice that the commissioner has denied interest rate buy-down payments within seven working days, the farmer is an eligible borrower and interest rate buy-down payments on the farm operating loan are approved by the commissioner.

Subd. 6. [BUY-DOWN PAYMENTS TO PARTICIPATING LENDERS.] The commissioner shall make interest rate buy-down payments to participating lenders as provided in this subdivision. An amount equal to half of the expected interest rate buy-down amount may be paid to the participating lender 30 days after the loan is reviewed by the commissioner. If the participating lender elects to receive the first half payment at a date later than 30 days after the loan is reviewed by the commissioner, the commissioner shall make the payment on the date requested. The balance of the interest rate buy-down payment must be paid to the participating lender not more than 30 days after the request for final payment is received.

Sec. 5. [FARMER APPLICATION FOR INTEREST RATE BUY-DOWN.]

A participating lender must receive and evaluate loan applications from any farmer who has transacted farm-related borrowing with the lender within the prior three years or from a farmer who has not previously established farm-related borrowing or whose previous lender is no longer in the business of making

farm-related loans. The participating lender may use criteria beyond those in section 2 in determining whether to make a farm operating loan to a farmer.

Sec. 6. [APPLICATION BY PARTICIPATING LENDERS.]

In order to receive interest rate buy-down payments from the state, a participating lender must submit to the commissioner a properly completed application form for each farm operating loan eligible for interest rate buy-down payments.

Sec. 7. [MAXIMUM INTEREST RATE.]

To qualify for interest rate buy-down payments, a participating lender must offer to make a farm operating loan to an eligible borrower at a rate of interest equivalent to that offered to other farmers having similar security and financial status but in no case may the interest rate exceed the current commissioner's interest index. The commissioner may use appropriate means to verify that the operating loan interest rate available to an eligible borrower is substantially the same as that available to other borrowers.

Sec. 8. [STATE CONTRIBUTION TO INTEREST BUY-DOWN.]

As provided in section 4, subdivision 6, the commissioner shall pay to a participating lender for the first \$100,000 of a farm operating loan made to an eligible borrower an amount equivalent to 37.5 percent of the contract interest to be paid during the term of the farm operating loan.

Sec. 9. [LENDER CONTRIBUTION TO INTEREST BUY-DOWN.]

A participating lender must provide a reduction in interest rate for the first \$100,000 of a farm operating loan made to an eligible borrower in an amount equivalent to 12.5 percent of the contract interest rate to be paid during the term of the farm operating loan.

Sec. 10. [EXISTING RESTRUCTURING PROGRAM; DEFINITIONS.]

Subdivision 1. [APPLICABILITY.] The definitions in this section apply to sections 10 to 12.

Subd. 2. [CLASSIFIED FARM LOAN.] "Classified farm loan" means a farm loan that the lender determines to have a substantial risk of nonpayment, so that the lender is likely to sustain some loss if the borrower's paying capacity, net worth, or collateral is not improved. The loan need not already have been classified by a bank examiner.

Subd. 3. [COMMISSIONER.] "Commissioner" means the commissioner of commerce.

Subd. 4. [COMMISSIONER'S INTEREST INDEX.] "Commissioner's interest index" means an interest rate that is 2.3 percent above the current lending rates of the federal intermediate credit bank to production credit associations as certified each month by the commissioner.

Subd. 5. [FARMER.] "Farmer" means a state resident individual, or a domestic family farm corporation defined in Minnesota Statutes, section 500.24, engaged in the business of farming property in this state.

Subd. 6. [FARMERS HOME ADMINISTRATION.] "Farmers home administration" means the farmers home administration of the United States Department of Agriculture.

Subd. 7. [FARM LOAN.] "Farm loan" means a loan for operating expenses or the purchase of property for a farm business.

Subd. 8. [LENDER.] "Lender" means a bank, savings and loan association, or credit union chartered by the state or federal government, a farm credit system lender, and the Federal Deposit Insurance Corporation.

Sec. 11. [QUALIFICATION OF LENDERS.]

(a) To qualify for an interest payment under sections 10 to 12, a lender must first sign an agreement with the commissioner to follow the guidelines.

(b) A lender may not foreclose on a farm loan of a farmer who has had a loan application submitted to the farmers home administration under section 12 until (1) the lender certifies to the commissioner that the farmer's loans have been submitted to the farmers home administration for debt restructuring and that the loan debt restructuring has been approved or denied, or (2) 90 days have expired, whichever is earlier.

(c) The commissioner may not make an interest payment to a lender for a loan under sections 10 to 12, if the lender has foreclosed the loan.

Sec. 12. [INTEREST PAYMENT PROGRAM ON EXISTING FARM LOANS.]

Subdivision 1. [COMMISSIONER PAYS INTEREST.] The commissioner shall pay the interest attributable to the first 60 days of a 120-day period, on the first \$25,000 of operating farm loans and the first \$25,000 of ownership farm loans of each borrower submitted by a lender that signs an agreement under section 11 to the farmers home administration for loan guarantees and debt restructuring.

Subd. 2. [INTEREST.] The interest to be paid is the amount

that becomes attributable to the first 60-day period after the lender signs the agreement with the commissioner under section 11. The amount to be paid is determined by the loan agreement between the lender and the borrower.

Subd. 3. [CLASSIFIED FARM LOAN REVIEW.] During the first 60 days of the 120-day period after the agreement with the commissioner in section 11 is signed, the lender must review all classified farm loans and determine which farm loans the lender will submit to the farmers home administration for loan guarantees and debt restructuring.

Subd. 4. [LENDER-BORROWER AGREEMENT.] For each farm loan that the lender submits to the farmers home administration for loan guarantees and debt restructuring, the lender and the borrower of the farm loan must sign an agreement. The agreement must:

(1) state that the lender has agreed with the commissioner not to foreclose on farm loans submitted, as specified in section 11;

(2) state that the commissioner will pay the interest attributable to the eligible portion of the farm loan submitted to the farmers home administration for the first 60 days of the 120-day period if the lender qualifies for state interest payment;

(3) state that the borrower is not liable for interest paid by the commissioner;

(4) provide that if the lender qualifies for state interest payments, the lender will assume responsibility for the interest attributable to the eligible portion of the farm loan submitted and the borrower is not liable for the interest except as provided in clause (5); and

(5) provide that if the borrower agrees to have the farm loan submitted and the farmers home administration guarantees the loan, the lender may add the interest attributable to the second 60 days of the period to the principal of the borrower's farm loan.

Subd. 5. [PAYMENT APPLICATION.] The lender must apply to the commissioner for the 60-day state interest payment on a farm loan that is submitted to the farmers home administration. The lender must give the commissioner evidence of the farm loan submitted to the farmers home administration guaranteed loan program and application for the farmers home administration approved lenders program. A lender that complies with this section is qualified to receive payment from the commissioner.

Sec. 13. [ELIGIBLE FARM OPERATING LOANS.]

Notwithstanding Laws 1985, chapter 4, as amended by Laws 1985, chapter 114, a farm operating loan due and payable by April 1, 1986, and is otherwise eligible for the state interest payment and the commissioner of commerce shall make the payment if the loan was submitted by December 31, 1985.

Sec. 14. [EFFECTIVE DATE.]

This article is effective the day following final enactment.

Minnesota Department of Agriculture
APPROVED ADULT FARM MANAGEMENT PROGRAMS
April, 1986

Mr. Pete Revier
 Farm Management Instructor
 Ada Public Schools
 Ada, MN 56510

Mr. Dwain Vangsness
 Farm Management Instructor
 Southland High School
 Adams, MN 55909

Mr. Gay Thome
 Farm Management Instructor
 Southland High School
 Adams, MN 55909

Mr. Norm Fredin
 Farm Management Instructor
 Albert Lea AVTI
 Albert Lea, MN 56007

Mr. John Nelson
 Farm Management Instructor
 Alden-Conger School District
 Alden, MN 56009

Mr. Jerry Kalinowski
 Farm Management Instructor
 Alexandria AVTI
 Alexandria, MN 56308

Mr. Bruce White
 Farm Management Instructor
 Appleton High School
 Appleton, MN 56208

Mr. Ron Hayes
 Farm Management Instructor
 Austin AVTI
 Austin, MN 55912

Mr. Tom Risdal
 Farm Management Instructor
 Box 606
 Barnesville, MN 56514

Mr. Darrell Ober
 Farm Management Instructor
 Barnum High School
 Barnum, MN 55707

Mr. Gerald Ausmus
 Farm Management Instructor
 Lake of the Woods High School
 Baudette, MN 56623

Mr. Jim Sackett
 Farm Management Instructor
 Bemidji AVTI
 Bemidji, MN 56601

Mr. Steve Zeigler
 Farm Management Instructor
 Bemidji AVTI
 Bemidji, MN 56601

Mr. Richard Bonde
 Farm Management Instructor
 Benson High School
 Benson, MN 56215

Mr. Eugene Francis
 Farm Management Instructor
 Blooming Prairie High School
 Blooming Prairie, MN 55917

Mr. Gerald McConkey
 Farm Management Instructor
 Brewster High School
 Brewster, MN 56119

Mr. Stan Vander Kooi
 Wright County Vocational Center
 Highway 25 North
 Buffalo, MN 55313

Mr. Dale Schoberg
 Farm Management Instructor
 Canby AVTI
 Canby, MN 56220

Mr. Bob Anderson
 Farm Management Instructor
 Woodland Vocational Center
 Clarissa, MN 56440

Mr. Dave Acheson
 Farm Management Instructor
 Cold Spring High School
 Cold Spring, MN 56320

Mr. Erman O. Ueland
 Instructor, Ag. Division
 University of Minnesota, Crookston
 Crookston, MN 56716

Mr. Kurt Schoepferster
 Farm Management Instructor
 Dawson High School
 Dawson, MN 56232

Mr. Del Christianson
 Farm Management Instructor
 Detroit Lakes AVTI
 Detroit Lakes, MN 56501

Mr. Clayton Olsen
 Farm Management Instructor
 Detroit Lakes AVTI
 Detroit Lakes, MN 56501

Mr. Jim Takala
 Farm Management Instructor
 Duluth AVTI
 2101 Trinity Road
 Duluth, MN 55811

Mr. William Ladwig
 Woodland Vocational Center
 Eagle Bend Public Schools
 Eagle Bend, MN 56446

Mr. Kenneth Stassen
 Farm Management Instructor
 Faribault AVTI
 Faribault, MN 55021

Mr. Douglas Wertish
 Farm Management Instructor
 Faribault AVTI
 Faribault, MN 55021

Mr. Al Schoenbauer
 Farm Management Instructor
 Fergus Falls High School
 Fergus Falls, MN 56537

Mr. Ron Salber
 Farm Management Instructor
 Fertile High School
 Fertile, MN 56540

Mr. Ken Johnson
Farm Management Instructor
Foley High School
Foley, MN 56329

Mr. Doug Fjerstad
Farm Management Instructor
Fosston High School
Fosston, MN 56542

Mr. Ron Monson
Farm Management Instructor
Frazee High School
Frazee, MN 56544

Mr. Mel Faltinson
Farm Management Instructor
Fulda High School
Fulda, MN 56131

Mr. Kenneth Stenzel
Farm Management Instructor
Glencoe High School
Glencoe, MN 55336

Mr. Ronald G. Nielsen
Farm Management Instructor
Glenwood High School
Glenwood, MN 56334

Mr. Bill Crist
Farm Management Instructor
Goodridge High School
Goodridge, MN 56725

Mr. Neale Deters
Farm Management Instructor
Granite Falls AVTI
Granite Falls, MN 56241

Mr. Mike Resvick
Farm Management Instructor
Hawley High School
Hawley, MN 56549

Mr. Curtis Berg
Farm Management Instructor
Hayfield High School
Hayfield, MN 55940

Mr. Craig McCallum
Farm Management Instructor
Hendricks High School
Hendricks, MN 56136

Mr. Charles Erickson
Farm Management Instructor
Henning High School
Henning, MN 56551

Mr. Chuck Ennen
Farm Management Instructor
Hoffman High School
Hoffman, MN 56339

Mr. Jeff Demmer
Farm Management Instructor
Hoffman High School
Hoffman, MN 56339

Mr. Warren Ekstrom
480 North Main Street
Hutchinson, MN 55350

Mr. Charles Asman
Farm Management Instructor
Jackson AVTI
Jackson, MN 56143

Mr. Doug O'Neil
Farm Management Instructor
Jackson AVTI
Jackson, MN 56143

Mr. Donn Russell
Pioneer Hi-Bred International
Farm Information Mgmt. Services
P.O. Box 247
Johnston, IA 50131

Mr. Cletus Janni
Pioneer Hi-Bred International
Farm Information Mgmt. Services
P.O. Box 247
Johnston, IA 50131

Farm Management Instructor
Kasson-Mantorville High School
Kasson, MN 55944

Mr. Jerry Bartel
Farm Management Instructor
Kenyon High School
Kenyon, MN 55946

Mr. Harry Gerdes
Farm Management Instructor
Lakeland High School
Lakeland, MN 56150

Mr. Ernest Freier
Freier Enterprises, Inc.
Rural Route 2, Box 283
Lake Crystal, MN 56055

Mr. Jerome Freier
Freier Enterprises, Inc.
Rural Route 2, Box 283
Lake Crystal, MN 56055

Mr. Perry Fales
Southwest Experiment Station
Lamberton, MN 56152

Mr. Dary Talley
Southwest Experiment Station
Lamberton, MN 56152

Mr. Wallace W. Nelson
Southwest Experiment Station
Lamberton, MN 56152

Mr. Mark Prosser
Farm Management Instructor
Lancaster High School
Lancaster, MN 56735

Mr. L. R. Hohbach
Le Center High School
Le Center, MN 56057

Mr. Wayne Pike
Farm Management Instructor
LeRoy-Ostrander High School
LeRoy, MN 55951

Mr. Loel Gordon
Farm Management Instructor
Lewiston High School
Lewiston, MN 55952

Mr. Larry Oraskovich
Farm Management Instructor
Litchfield High School
Litchfield, MN 55355

Mr. Robert Johnson
Farm Management Instructor
Long Prairie High School
Long Prairie, MN 56347

Mr. James Ouverson
Farm Management Instructor
Luverne High School
Luverne, MN 56156

Mr. Charles Worm
Farm Management Instructor
Madelia High School
Madelia, MN 56062

Mr. Ralph Butterfield
Farm Management Instructor
Madison High School
Madison, MN 56256

Mr. Paul Callanan
Farm Management Instructor
Mankato AVTI
1920 Lee Boulevard
Mankato, MN 56001

Mr. Dennis Jackson
Farm Management Instructor
Mankato AVTI
1920 Lee Boulevard
Mankato, MN 56001

Mr. Dennis Schroeder
Farm Management Instructor
Marshall High School
Marshall, MN 56352

Mr. Michael Foley
Farm Management Instructor
Melrose High School
Melrose, MN 56352

Mr. John R. Larson
Farm Management Instructor
Milaca High School
Milaca, MN 56353

Mr. Myron Warner
Farm Management Instructor
Montevideo High School
Montevideo, MN 56265

Mr. Norm Brakken
Farm Management Instructor
Montevideo, MN 56265

Mr. Tim Radermacher
Farm Management Instructor
Montevideo High School
Montevideo, MN 56265

Mr. Ira Beckman
Montgomery High School
101 Second Street N.E.
Montgomery, MN 56069

Mr. Rich Morgan
Farm Management Instructor
Moorhead AVTI
1900 28th Avenue South
Moorhead, MN 56561

Mr. Scott Sonstegard
Control Ag. Business Services
Box 26
Morris, MN 56267

Mr. Maynard Harms
Farm Management Instructor
New Prague Public School
New Prague, MN 56071

Mr. Mark Worthley
Farm Management Instructor
New Richland High School
New Richland, MN 56071

Mr. Larry Klingbeil
Farm Management Instructor
New Ulm High School
New Ulm, MN 56073

Mr. Roland Bjorklund
Farm Management Instructor
Olivia High School
Olivia, MN 56277

Mr. Tim Holtquist
Farm Management Instructor
Ortonville Public High School
Ortonville, MN 56278

Mr. Mark Reicks
Farm Management Instructor
Osakis High School
Osakis, MN 56360

Mr. Victor Richardson
Farm Management Instructor
Owatonna High School
Owatonna, MN 55060

Mr. Craig Paskvan
Farm Management Instructor
Park Rapids High School
Park Rapids, MN 56470

Mr. Wallace Payne
Farm Management Instructor
Bonanza Valley Coop
Paynesville, MN 56362

Mr. Bennett Jorgensen
Adult Ag. Instructor
Healy High School
Pierz, MN 56364

Mr. Doug Gunnick
Farm Management Instructor
Pine City AVTI
Pine City, MN 55063

Ms. Janet McNally
Pine City AVTI
Pine City, MN 55063

Mr. Roger Thompson
Pine City AVTI
Pine City, MN 55063

Mr. Mike Caskey
Farm Management Instructor
Pipestone AVTI
Pipestone, MN 56146

Mr. Heimer Swanson
Farm Management Instructor
Pipestone AVTI
North Hiawatha, Box 311
Pipestone, MN 56164

Mr. Larry Mrozinski
Farm Management Instructor
Pipestone AVTI
Pipestone, MN 56164

Mr. Wes Wankel
Farm Management Instructor
Princeton High School
Princeton, MN 55371

Mr. Mike Lockhart
Farm Management Instructor
Pine to Prairie Vocational Center
Red Lake Falls, MN 56750

Mr. Mark Berg
Farm Management Instructor
Pine to Prairie Vocational Center
Red Lake Falls, MN 56750

Mr. Jim Kelm
Farm Management Instructor
Red Wing AVTI
Red Wing, MN 55066

Mr. Romeo Cyr
Farm Management Instructor
Red Wing AVTI
Red Wing, MN 55066

Mr. Frank Quam
Farm Management Instructor
Rochester AVTI
1926 Southeast Second Street
Rochester, MN 55901

Mr. Lorin Westman
SE Farm Management Association
135 Friedell Building
1200 South Broadway
Rochester, MN 55901

Mr. Duane Jaenicke
Farm Management Instructor
Roseau High School
Roseau, MN 56751

Mr. Howard Pennertz
Farm Management Instructor
St. Cloud AVTI
1540 Northway Drive
St. Cloud, MN 56301

Mr. Dennis Lehto
Farm Management Instructor
St. Cloud AVTI
1540 Northway Drive
St. Cloud, MN 56301

Mr. Richard Spitzner
Farm Management Instructor
St. James High School
St. James, MN 56081

Mr. Jerome Haase
Veterans Farm Management
Sebeka High School
Sebeka, MN 56477

Mr. George Crompton
Farm Management Instructor
Slayton High School
Slayton, MN 56172

Mr. Daniel Persons
Farm Management Instructor
Sleepy Eye High School
Sleepy Eye, MN 56085

Mr. John L. Woodford
Farm Management Instructor
Springfield High School
Springfield, MN 56087

Mr. Brad Harguth
Spring Grove High School
Spring Grove, MN 55974

Mr. James Erredge
Farm Management Instructor
Spring Valley High School
Spring Valley, MN 55975

Mr. Al Lauer
Irrigation Center
Staples AVTI
Staples, MN 56479

Mr. Don Johnson
Farm Management Instructor
Thief River Falls AVTI
Thief River Falls, MN 56701

Mr. Alan Dalen
Farm Management Instructor
Thief River Falls AVTI
Thief River Falls, MN 56701

Mr. Al Bruderie
Farm Management Instructor
Truman High School
Truman, MN 56088

Mr. Paul Bartz
Highland Vocational Center
237 Willow Street
Tyler, MN 56178

Mr. Brett Oelke
Farm Management Instructor
Wadena AVTI
Wadena, MN 56482

Mr. Norman Bohmbach
Farm Management Instructor
Waseca High School
Waseca, MN 56093

Mr. Vern Yetzer
Farm Management Instructor
Watertown-Mayer High School
Watertown, MN 55388

Mr. Dan Johnson
Farm Management Instructor
Wells-Easton High School
Wells, MN 56097

Mr. Howard Henderson
Farm Bureau Ag. Business Corp.
5400 University Avenue
West Des Moines, IA 50265

Mr. Dale Steussy
Farm Management Instructor
Willmar AVTI
Box 1097
Willmar, MN 56201

Mr. Dennis Goehring
Willmar AVTI
Box 1097
Willmar, MN 56201

Mr. Charles Boese
Farm Management Instructor
Winthrop High School
Winthrop, MN 55396

Mr. Wayne Flynn
Farm Management Instructor
Worthington High School
Worthington, MN 56187

Mr. Erlin J. Weness
633 Ash Road
Worthington, MN 56187

Mr. James J. Kastanek
Total Agri-Business Services, Inc.
Box 74
Albany, MN 56307

Mr. Mark Lewis
Farm Management Instructor
Blooming Prairie High School
Blooming Prairie, MN 55917

Mr. John Hest
Farm Management Instructor
Hawley High School
Hawley, MN 56549

Mr. HATCHER. The next witness is Mr. Lyle Onken.

TESTIMONY OF LYLE ONKEN, FARMER, BALATON, MN

Mr. ONKEN. Well, I did not have much notice on this. In fact, I did not know anything about it until last night. I jotted a few notes down, and what I was asked to talk about was the closing of a bank in this area, something that I had experienced a little over a year ago.

That was my first experience with Mr. Hatch. He is the one that closed the bank. [Laughter.]

On November 15, 1985, the Citizens State Bank of Fulda, MN, was closed by the FDIC. Actually, it was closed by the Commerce Commission, but the FDIC handled the situation.

Although I was not shocked by its closing, I was shocked as to the next 11 months of personal turmoil that myself and my family was going to endure.

In a few days time I was informed that I was to meet with a representative of the FDIC at the old Fulda bank, and my wife and I met with him. He began in a very cordial manner, but soon changed his style of personality, that I became all too familiar with in the next few months.

When I asked a representative about the repayment of the loans, he came right to the point. He said, the loans are due and payable immediately. I asked him, well what if I were insolvent or unable to obtain adequate financing. Well, he reminded me that we could work something out, he said, we would merely liquidate, and we will put a judgment against you and your wife to follow you the rest of your life.

At that time, I just bid him good-day and left for home.

Several days following, I talked to the FDIC again, at a town meeting they had in the Fulda High School Gymnasium. As a matter of fact, representatives of Congressman Weber's office were there. At that informational meeting, we were reassured by everyone there that they would do everything possible to make this transition as painless as possible. I believe their statement was, "We are here to liquidate the loans, not lives." I think they might have had it the other way around, by the time they got done.

Also, at that meeting a representative of FHA was there to say that FHA was there to make operating loans to farmers who qualified. He made an impressive appearance and he said to the whole audience, he was very happy and anxious to do business with the people here in Fulda, WI. He wasn't sure what State he was in, and after his helpers were there for 4 or 5 weeks, that was one of his lesser shortcomings.

I believe it was five or six FHA people, and they wrote about that many loans in 4 weeks time. They were known as the "FHA Jump Team," and sure enough, in a few weeks, they jumped in a car and went back home. [Laughter.]

During this time the FDIC had set up an office in Slayton. That is the county seat of Murray County. The second day this office was in operation, I went in and met with one of the representatives. He was known as "Liquidated." He did his job well.

I was asked to fill out a financial statement. I did that and returned it several days later. Then the intimidation process began. He asked me how I expected to keep operating, and I said when I resolved the matter with FDIC, I would obtain financing for my farming operation, my feeding facilities, I would then custom-feed cattle.

He said that he was a retired cattle feeder and he knew that was impossible. Well, I knew that he was too young to retire, and the only way you retire from cattle is feet first. Well, I am doing the same thing today—I am custom-feeding cattle, and it is working quite well. I think that kind of surprised him.

In the few days that followed, I spoke to the representatives and they called my wife on the phone and wondered if I had found other financing to pay off FDIC. She replied in the phone conversation that I had been in contact with several of the banks and lending institutions. He said, the ball was in my court, and I had better learn to play ball in the right game. They're fun people.

In the next several days, the FDIC sent two people out to my place to look over my operation, then several days after that they sent out independent appraisers to get values of all the property. This was done to see my evaluations—their evaluations were close to my own. This gets a little tricky because their figures are closely guarded. They will not show you their figures, but they want to see mine. And, I was not allowed to see them, I guess because I did not pay for the appraisal. They didn't pay for mine either.

I found out later that my figures were very close to the FDIC's. As a matter of fact, they were higher than FDIC's.

Well, then came the negotiation process. And, this was the representative. I went through two or three negotiation processes and always ended up the same way. They said my appraisal was way too low, and the only way to resolve it was to liquidate. Well, I said to go ahead and liquidate, but they did not want to do that either. On one of these occasions my wife went along with me, and I warned her, these sessions get a little heated, and I said when they are done with one intimidator, they send in a second one. And, sure enough, that is what they did.

During this session, I reminded the one fellow that farming is a tough business, and seemed to be getting tougher all the time. He replied he thought it was a good time to get into farming. He said, machinery is cheap, land is cheap, it is a good time to get into it. And, Fulda was a great opportunity, it was a good area to farm in. At that point, I asked him if he was ready to accept my settlement, and he said if he took my proposal, he would lose his job.

My wife suggested he maybe start farming. [Laughter.]

If looks could have killed, we would have went to a funeral. [Laughter.]

I was told to go home and give it some more thought. I called him back the next day, and I said I was ready to settle, but I wanted to have the head liquidator there, the head intimidator. So, we all met together with the head liquidator, and I agreed to pay FDIC 100 percent of their appraisal, and then to give them an extra \$75,000 besides. I was going to give them \$6,000 a year for 7 years, and give them a balloon at the end or renegotiate.

That was about the third week in April. Well, this all started about the 15th of February, so now the third week of April, we only got that far, and that is working fast for FDIC. So, I was told that—we made the agreement on the last of April—I was told in 30 days they would have the paperwork done and we would be on our way to better days.

This drug on all through the summer. I only have half my notes, they blew away on the way up here today. This drug on all through the summer. We finally—we were in contact about every 30 days. Finally, in June, I went and asked them if they were about ready to get it settled. Yeah, he said, we're only a few days away. And, I said, it is very important to me, because my wife and I were planning an adoption, I said, and I don't want anything to mess this thing up.

He said, I perfectly understand, and we'll do everything we can.

That was June, and July, and August—and in September, I got ahold of a guy who was in my area from FDIC, and I asked him, how are you coming on my problem? He said, in a few weeks, we will have it cleared up. He said, it looks good. And, end of September I called them, October I called them, and November I called them, and the story is it's going to be a few weeks, it was lost, and somebody went on vacation and somebody quit, and nobody seemed to know.

So, then in November, and all the while—while all this went on—I didn't receive one ounce of money, one nickel's worth of money for operating expense or living expense. You have got to kind of live on your wit, and I haven't got much of that so it got pretty thin.

Anyhow, in November I called them up, as just a kind of desperation plea. I was wondering just how far they could—just what nice people they could be. So, I said, I'm out of food, the refrigerator is empty, the kids are sick, the furnace is broke, I'm in desperate trouble. He said, how much do you need? And, I said, \$2,000. He said, I'll get back to you. So, I waited a couple of days and I called him again, and I said, did you forget my phone number. No, he said, it's been denied. I said, how come? No reason. Just denied.

Well, it's a good thing I wasn't desperate. I'd have been in trouble. [Laughter.]

Anyhow we got the whole thing resolved in January of this year. So, we were about 11 months in this negotiation process with the FDIC. It is something that can be done in a matter of days if anybody with any sense was left to do it. They send people to do a job, that don't know how to do the job. Nobody has the authority to make decisions. Decisionmaking is done elsewhere. I don't know where it's made.

And, I guess the point I just want to put across to you people here, that if you haven't experienced a bank closing as this has been—although there's more bank closing than most people are depression types—it is quite an experience. Quite an experience.

Thank you.

Mr. HATCHER. I was shocked. Thank you.

Vin just told me that you had nine in this District in the last—

Mr. WEBER. About 18 months. We have had nine bank closings.

Mr. HATCHER. Well, I could not believe it. We have not had any in that period of time, and I think we must have got in financial trouble in rural South Georgia earlier than you did, and they must have cut the farmers off sometime in the past.

Mr. WEBER. You notice, also, Mr. Chairman, that the Commissioner left before I got to ask him how many more there would be in the next 18 months.

Mr. HATCHER. Either he left because of that, or because he knew who the next witness was. [Laughter.]

Thank you. Mrs. Peggy Devos, next.

Mr. WEBER. I should add that the Commissioner has a very tough job, and he does a hellava good job of it, but he is in a very tough job.

TESTIMONY OF MRS. PEGGY DEVOS, OUR OWN PORK PANTRY, GHENT, MN

Mrs. DEVOS. I am a farm wife, or possibly an ex-farm wife. My husband, Don, and our three boys, farm just outside of Marshall. We had 210 owned acres of land, and rented 300 other acres of land. We also farrow to finish a 150 sow unit, producing around 2,800 butchered hogs per year.

We expanded our acreage and equipment in the early 1980's and got possibly caught in a financial mess, and last month we had to file bankruptcy to save what we could of our home place.

The reason I am here is to talk of how I started a new business about 4 months ago to try to save the farm. Unfortunately, I found it was too late to do it. But, in November 1985, I was motivated by pure depression and a strong will to try to save my farm. So, I started to retail the meat that we were raising on the farm, and started a business called the Pork Pantry.

We live 2 miles from Marshall on a main highway. If my pain had not been so great, I am sure I would stopped the project, because I encountered a lot of obstacles trying to get help: Commercial, or a farm lender, was Production Credit Association. I went to them, and asked them for \$2,000 to buy equipment, and if they would give me permission to slaughter 10 of the hogs on the farm to start the operation. They refused me on both counts, telling me that they were not a commercial lender, they were a farm lender.

So, I went to the local banks and, of course, they need collateral for a loan, and Production Credit Association had all our collateral tied up in their loan. So, the only thing I had available was my 1980 Chevy Blazer, so I asked the bank, could I please have \$2,000 on the car from the bank, and they told me that this was a farm project, that they were a commercial lender, and to go talk to my farm lender.

Well, I guess by the Grace of God, and a lot of determination, and a lot of free help and good people, we remodeled and we opened the business anyway. I received equipment from a man in South Dakota who had never met me before. Frankly, I went to him and priced it, and I started crying, because I didn't have the money, I didn't realize it was so expensive, so he offered it free of service for 6 months. He said, if you make it, pay me, if you don't, bring it back.

And, I guess right now, that's where I am at. I don't know if I am going to make it.

The Good News is: I have been blessed with a lot of media. The local newspaper picked up the story 1 week after I was open. The Associated Press picked up that story; a Sioux Falls, SD, TV station ran a story; "Hog Farm Management" ran a story nationwide. And, NBC News was just on our farm on Tuesday, for our farm auction.

The reason I believe that my business—I need help. I need financial help right now. I have no way of getting it as I can see it today because I have no equity left. I don't have a whole lot of experience, but I have got a great idea, and I feel I'm blessed. I've been a farm wife, I was raised in a city, I went to the farm 6 years ago. I was totally involved in our farming operation from tillage to farrowing.

Right now I'm at an impasse. I believe—let's see, how do I want to say it? I've discovered through the retailing of my pork that there is a difference in pork. How we raise it, what we do with it, and how we consume it. I personally believe that red meat consumption is down in the United States because of inconsistent quality available to the consumer. One of the men speaking said that the imports have an impact. What do we know what we're getting or where we're getting—farmers today have had to cut rations and technology because they're not getting paid for their product. Consequently, you as the consumer are not getting a consistent quality product.

What I discovered, and what my processor, Federal discovered, was my pork has something special. We strived for nutrition, we fed a high nutrition program by using commodities off of our farm. We used our own corn and soybeans and manufactured a majority of feed on the farm, so we were sufficient there. We traded that nutritional program for no antibiotics in our meat. And, I used that as a tool to start my business, that I could provide a quality product that was something different than the typical processor had.

I have a dream that if we could group some farmers together to feed consistent quality, the same program, and market it through certain types of stores, that we could stabilize some farmers. I can say this, because since I got all this national attention, I have been in the process of helping four or five farmers now start pantries, starting to market meat. I have not had a direct impact on the economy in this area, but my processor has had to hire more help because of the business that I have generated.

I had the good pleasure last week—we have been testing out hogs of different farmers, because I have lost my farm, and I eventually will lose my hog supply—so I have been seeking out farmers that feed the same program as I do, and it really blasts me that yesterday I could pay a farmer \$4.00 over market for his hogs, to give him the incentive to keep on producing the way he was. It met his cost of production. I said, I don't have any money, but what do you need to keep this farm going, so that you can keep me going? And he told me the price, and it was \$4.00 over the market, and I paid it, because at the retail end I do not have to change my price. That \$10.00 that helped save that farmer or at least made him

break even on the hogs he delivered me, could keep him in business and it won't have to change the pork chop at the other end.

So, my goal is to gather farmers together to produce consistent quality and to give you an incentive to buy them and, how do I say it? So many people have come to me, I know a lot of my business is—has come from the sympathy angle—and I guess I would—I'd even like to label my packages, "the rebate to the farmer is 15 cents a pound off of this package," and to know that it's finally getting back to the farmer. And, if we can get a corps of farmers in each of the areas, and can get some processing done, and get the meat out to the consumer where he says, hey, I've never had meat like that before, when I got back next week it's going to taste the same, and in the meantime I've got the good pleasure to help that farmer, I believe we can do something.

And, if this poor farmer gets paid for the meat, the packers won't get it, so they're going to raise their prices to get the other meat. Now, this program isn't for everybody. Not everybody is going to buy from it. But, I believe there is enough interest out there to do it. So, I need the Small Business Administration desperately.

I need venture capital, I need somebody with a dream, somebody that cares about the farmer, and not only that, it will boost the other economy, you know, it's a chain reaction. And, my processor is tickled pink, he has been blessed, and he has been able to hire some people.

So, I guess that's all I have to say. And, thanks for coming.

Mr. HATCHER. Thank you. And, I hope you make it.

Mrs. DEVOS. Thank you.

Mr. HATCHER. Sounds to me like you have enough willpower to do it.

Questions, Vin?

Mr. WEBER. Mr. Chairman, again, I will try to be brief, but I do want to ask Peggy, have you gone to the SBA at all?

Mrs. DEVOS. I have talked to an official from SBA, last week, in fact, at a women's meeting, and the first response was because we filed bankruptcy, they could not help us; then the next response, the gal called me back a few days ago and said, we won't—you know, that will have a bearing, but not totally, but you still have to have your 30-percent equity. And, frankly, I don't have that. I am just staying open day to day.

Mr. WEBER. Is there any assistance that the SBA has been able to give you?

Mrs. DEVOS. None at all.

Mr. WEBER. I just wanted to point this out. I knew the answer to the questions, Mr. Chairman, but I wanted to highlight them because the problem we face is small business in the view of the Small Business Administration is a lot different than what we think of as small business in this part of the country.

We are helped by the SBA in terms of some of the employers in our part of the country, and we are grateful for that. But the average genuinely small family-owned business, the average Main Street business, for a lot of reasons, just does not qualify for that kind of help. And, if we are going to use the SBA, which is one of the only tools that we have for small business development through the Federal Government, to do anything about the prob-

lems of Main Street, rural America, then we are going to have to have some serious changes in the way they operate.

Mrs. DEVOS. I might add that when I went to the bank, I asked them if they wouldn't give me a loan on the car, if I couldn't get money from the SBA, and they said it wasn't enough, you know, I wasn't asking for enough to help.

Now, I'd like around \$25,000 to make this all work on a larger scale.

But, one other thing I might add is that a lot of other good programs ought to help. Like, I did not have a sophisticated marketing plan, and different things to put this total vision together. I am real excited that the Science and Technology Center out here at the College has just accepted me as an account and they're going to help me try to develop and commercialize the business.

Mr. WEBER. We are going to be hearing from them on the next panel.

Mrs. DEVOS. Right. And, then there is the main State career counseling, and there's an organization called Wedco. They have offered some management advice, but not financial. So, you are important to me and to us.

And, thank you.

Mr. WEBER. I just have one additional point. I just want to back up what Lyle said, because I have been out making the same kind of phone calls that you have made, and talking to the same people, sometimes, in fact, about your case, and a whole lot of others in Southern Minnesota, and they are not much more responsive to Congressmen than they are to borrowers.

And, an additional gem, you mentioned the FDIC guy who referred to Fulda, WI, I do not think it was your case, but we had another guy who was trying to get some money just loosened up so that he could get some corn to feed his—either hogs or cattle, I cannot remember which—and they put him off and put him off and put him off—and one day, this brilliant regulator that had been sent up to help us, said that he was pleased to tell this farmer that he had the go-ahead to go and get some corn at the corn store. [Laughter.]

Mr. HATCHER. He had a good grasp.

Mr. WEBER. He really did. [Laughter.]

Thank you, Mr. Chairman.

Mr. HATCHER. OK. Richard, do you have any questions?

Mr. RAY. No.

Mr. HATCHER. Thank you, both. Thank you. [Applause.]

The next panel which will focus on Small Business Working for Opportunities includes: Dr. Ted Surdy from Southwest State University, Science and Technology Resource Center, in whose building we are; Mr. Al Voudrie, comptroller, Minnesota Corn Processors, Marshall, MN; Tom Tourville, executive director of Marshall Chamber of Commerce; and Mr. Steve Raguse, farmer, Wheaton.

Gentlemen, since you are last, I will remind you that we are leaving sharply at 3:30. We are right on schedule, as a matter of fact. You should have gotten 40 minutes and that is what we have left. So, without further ado, I will recognize you in the order I called you up, and we will hear from you and then if time permits, perhaps ask some questions.

Dr. Surdy.

TESTIMONY OF DR. TED SURDY, SOUTHWEST STATE UNIVERSITY, SCIENCE AND TECHNOLOGY RESOURCE CENTER, MARSHALL, MN

Dr. SURDY. Mr. Chairman and members of the committee, I am going to try to hold my comments down to 5 minutes as requested.

We have submitted a proposal through the Minnesota legislature this past year. The proposal was to get the university much more involved in the economic development of southwest Minnesota. The intent of the legislation was to start a Science and Technology Resource Center, to use the resources of the university as well as the area vocational technical institutes to impact on the economy of southwest Minnesota.

The Science and Technology Resource Center was funded in July of the past year and really got into operation in September. We are a very tiny glimmer of light in a very dark gray horizon of the economy in southwest Minnesota. Things are happening, and good things are happening, but we will need more time to have our efforts positively impact on the economy.

I have been teaching at universities for the last 28 years, and have been at Southwest State University for the last 18 years. During that time I have taught some very highly technical kinds of courses. And, inevitably at the end of the year, I have had students come up to me and say:

I would love to stay in Windom, or Luverne, or Slayton, or Marshall, or somewhere in southwest Minnesota, but there simply are no jobs available. Therefore, I have to go to Minneapolis, or to Omaha, or Chicago, or someplace else to find a job.

We cannot afford to lose our young people from this part of the State. If we lose young people, we lose our tax base, we lose our schools, we lose our communities. I also believe that if many of the farmers' wives had the opportunity to earn additional income we would not have the difficulty we have today.

The major theme behind the formulation of the Science and Technology Resource Center was the creation of jobs. It is because of the foresight of the legislature, our area legislators, that we have the Science and Technology Resource Center today.

The thrust of the center is to work with entrepreneurs, inventors, small businesspeople who want to spin off additional products, to help them set up a business up to the stage of commercialization. The final goal of the Science and Technology Resource Center is to create jobs.

A typical scenario starts with a client contacting our office. I might add that we have been in touch with hundreds of clients. At the present time we are working with approximately 20 of them to set up new businesses. The client fills out a registration form and tells us something about the kinds of ideas he has for starting a new business, whether it be a new product from a small business, or simply an idea that he has had pigeon-holed for the last 15 years and he finally has a place to go to.

That idea or that product is evaluated by a team of evaluators from an advisory committee that we have established. This team of evaluators is made up of people from southwest Minnesota. It con-

sists of farmers, bankers, attorneys, students, and small business-people. They make a judgment as to the possible success of that idea on the marketplace.

We meet as a group and discuss the probability of success of that item or that project. If we decide to support that project, then we are able to supply that project with a number of services including space at the University to work, technical and business help in terms of professors who have those kinds of particular expertise.

We can provide the project with students that can fill specific needs of the project. We can provide that project director with supplies and equipment necessary to develop a prototype. We can provide the project with all the expertise necessary to take that project up to the stage of commercialization, with two provisos. One is that the client stay in southwest Minnesota, that is to operate the business in southwest Minnesota; the second is, that whatever funds we expend on the project be reimbursed to the center. In fact, we would negotiate with the client that whenever that client developed a net income from the business, that we would negotiate a pay-back in such a way that it wouldn't negatively impact on the business.

If the client's project, however, was not successful and didn't make it, the client would have no obligation to the Center. It's a no-lose situation on their part. We want to help the individual. We want to help the economy of the State, and we feel that is the best way of accomplishing that goal.

We have at the present time between 20 and 25 clients. Peggy, one of your panelists, is one of our clients. We are working with a number of mushroom farmers. We're working with, for example, a specialty crop grower who wants to diversify his typical soybean-corn operation, to raise cash crops, cash crops in terms of produce. We are working with plastic fabricators who had some new ideas and want to spin off new products.

We are working with small fabricators, small plants that are involved in light manufacturing. I met with bankers and a potential client this past Tuesday. They are going to start a fabrication operation in Redwood Falls that will hire additional people to manufacture a new and more effective device that blows grain into a storage bin. The client has requests for 15 of the devices sell for approximately \$8,000 apiece.

We are working with clients, for example, who sell children's clothing through a catalog operation; a kind of a cottage industry. We are seeing some successes. We know of companies that are anticipating moving to southwest Minnesota, not because they want our help now, but because we are here. They anticipate using our services at some time in the future.

They see us as having some particular expertise that they can draw on at some time.

We have had some moderate successes, but Mr. Chairman, those successes might be aborted, if in some way the Small Business Administration has its funds or its legs cut out from underneath it, because a lot of our clients depend on commercialization capital. We simply do not have those kinds of funds here. They lean very heavily on SBA. You have heard the comments about availability

of bank loans in southwest Minnesota. They are very difficult to come by.

I make these statements today to simply tell you that there are some things that are happening here, and some very positive things are happening. We can visualize that perhaps in a year or two we are going to make a significant impact on the economy in this part of the State.

I thank you for coming here, and I hope you enjoy your short stay in Minnesota.

Mr. HATCHER. Thank you very much, Doctor.

Next, Mr. Voudrie.

TESTIMONY OF AL VOUDRIE, COMPTROLLER, MINNESOTA CORN PROCESSORS, MARSHALL, MN

Mr. VOUDRIE. Thank you, Mr. Chairman, and Congressmen, thank you for allowing us to be here.

I have been asked to give you a 5-minute comment about Minnesota Corn Processors. Minnesota Corn Processors is owned by approximately 1,200 farmers in southwestern Minnesota, who got together several years ago, about 1980-81, and they decided to try to help themselves market their product in that they wanted to take, sell corn, or some of their farm products, and promote those into a value added product.

And, they ultimately came up with Minnesota Corn Processors, and we process corn. We convert the corn into corn syrup, corn starch, and by-products. The concept, the farmers had the vision several years ago to go to this kind of marketing for their product, and we are getting near to where the value added will start coming back to the farmer.

It has been difficult to get the plant started because of financing and the comments you have been hearing today. The construction phase took 1 year, the plant has been in production for approximately 2 years. The company now employs approximately 100 people which has created new jobs for Marshall, and we have encountered the same kinds of problems that you have heard here most of the afternoon. Insurance costs—we are one of those that has received a 300-percent increase in insurance cost this past year. We have unusually high interest rates because we are related to the farming industry; real estate taxes are being increased for the same reasons you heard, lower assessed evaluations in the county, increased evaluations in the city.

The bankers are reluctant to discuss loans with us because of being in the agriculture community. We constantly are looking at new ways to make more money for the farmer, and God knows they have been patient with management of MCP because we have not been able to pay them market price for their corn, and we are getting close to that point now.

During the last 9 months we have been studying the feasibility of going into ethanol and adding an ethanol refinery to the plant, and that was approved by the stockholders in January. We have since that time been working on financing and trying to raise the money to add the ethanol refinery to the corn processing plant. Here again we have encountered the same kinds of problems that you

have heard about today. The banking institutions—as a rule, they spend a day talking to us, and then they come back and say that they are not interested in getting into the farm-agricultural industry-type business. So, then we spend quite a bit of time working to give them the information they want, but then to be told that it is ag-related so they have decided not to get involved in that.

Another problem we have is the investment tax credit which each one of you heard about at lunch time, that it is uncertain as to whether or not the investment tax credits will be available after this year. And, our approach to the ethanol project is to put it under a leasing program, because we want to pass the investment tax credit and any accelerated depreciation through to the lessors, and help us to get a lower interest rate which, in turn, will give us more of a value-added for the farmers.

We have made a proposal to our regular bank, which is in St. Paul, and the status that we have now, that they want loan guarantees, and we are working toward getting those. But here again we are facing the same kinds of problems that you have heard again, and to go out and get a State or Federal loan guarantee requires massive paperwork, long-term projections, and it takes a lot of people that are knowledgeable in knowing how to put together financial packages. To come up with a package for the Small Business Administration or Federal EDA or Department of Energy in the State, requires someone that really understands how to do it. And, we are at the point where we are working on a 5-year forecast. We have been told that they want two of those years by months, and it takes quite a bit of expertise in knowing how to put this financial package together.

Because as soon as you submit it to any of the Federal or State departments, they have a whole staff of people that are going to start tearing into the figures, and then coming back and saying that, possibly, you have forgotten to send another sheet of paper or something like that. So, I find it difficult to forecast out 5 years, and come up with a comprehensive financial package to support what is required by, like, FmHA or you know the lending agencies that we are talking about.

You know, I wouldn't mind—2 years is not too bad, but when you go out 5 years, well that's pretty far out.

But, here again, the paperwork required for small business to get Federal assistance or State assistance is quite staggering and it does take an awful lot of time.

Thank you very much.

Mr. HATCHER. Thank you.

The next witness is Mr. Tom Tourville.

**TESTIMONY OF TOM TOURVILLE, EXECUTIVE DIRECTOR,
MARSHALL CHAMBER OF COMMERCE, MARSHALL, MN**

Mr. TOURVILLE. I would like to thank you for the opportunity to share some comments with you today, and to offer some testimony.

Looking at the title for the area that I was to address, to make some comments to, Small Business Working Together for Opportunities, I am probably not going to—I am going to stay away from addressing all the problems that have been brought up today and

have been reiterated numerous times by different people, and maybe share with you some of the ideas, some of the programs, some of the things that, as a chamber of commerce, we are trying to do, as it relates to assisting the small businesses in our community and in our area.

We have seen so many stresses and so many tough situations really being put upon the small business people: You can look at capital, you can look at equity, you can look at insurance, and all the variables that are included in those situations, but it really gets down many, many times to having somebody there to work with that businessperson on a one-on-one basis or on a group basis, sometimes it is just a support basis, in order to help those people through their various tough times and situations, and as a chamber of commerce, about 3 years ago, 2½ years ago, that was one of the things we attempted to address.

In the past, chambers had the reputation of being great for putting on black hat days, and crazy days, and making sure the pumpkins are out on Halloween. But, did we really get to the real root of what is going to be the economic development, structure, future for our communities? What can we do now to assist, maintain, and sustain our small business people? And, no matter if you have an industry of 1,000 people, in the eyes of the Federal Government, they are still small business people.

And, so when you really are talking about the business people of a community, like the size of Marshall, we are all small business people. We are a chamber of commerce clearly of small business people.

Some of the things that, on an area basis, before I talk about, a little bit about what we are trying to do, and on a local basis as it relates to our chamber of commerce, really came in the testimony prior to me: The development of the Science and Technology Center at Southwest State University is the type of thing that I think shows the initiative that business people, educators, rural people, together, can work as a unit, or as a cooperative package, to try to assist themselves. We are in the process right now, as a community, of being able to talk to some industries and to some companies that, at least, are looking at us. They probably would not have even taken their glasses off in our direction 2 or 3 years ago, but are at least considering us or looking at us, because of the type services that are now available in the SSU-Tech Center.

It is companies that are small, but with good growth potential. There is a word that is being overused all too often right now, but it really is a word that I think in the next 10 years will have great impact on what happens to all of us in southwestern Minnesota, and that is diversification. You take the efforts of a company like Minnesota Corn Processors, and we look at what they were, what they had started from, the number of farm families that they are directly related to, and where they are going and what they have been able to accomplish, but more importantly, their need, their want, and their desire to take the diversification that they need to do, with their ethanol project as an example, to try to broaden their base, to take that base so that they can put those potential companies as MCP on sound grounds. Those are some of the things that—people, internally, cannot help themselves. I was glad to hear

the lady earlier speak about the doom and gloom attitude. We can be our own worst enemies.

And, that sometimes can come back to haunt us.

But, when we really take a look at small business, it has been the attitude, at least of our chamber, that the small businesses of our community are the life-blood of our community, and some of the specific programs that we have been working with, as we have tried to have an increase in the involvement and awareness of the availability of our SCORE chapter.

What the SCORE Chapter is—it is senior retired business people who have a tremendous amount of expertise in business management and business skills and in business counseling, and they are working with the small business people one-on-one or three-on-one or whatever type of system that needs to be. It is a chance where, as a unit of other business people, we can reach out and help our fellow business people, help them come through some of the problems. It is counseling, we do not profess to have the expertise that we can go out and get them the loans that they need, but maybe we can help them put together the package that they are looking for to make those requirements of those loans that much easier.

We are very much in support of, and in trying to make use of, the small business developmental center here at Southwest State University. It is an office that is directly put together by the SBA to work with business people, specifically: "I've got this business, I'd like to open it. How do I go about the paperwork, how do I go about the loan process?"

Now, I thought I was going to promise myself that I was not going to say, we need something, I wasn't going to come up here and ask for something today, but in the case of the SBA, and I think I have heard earlier your attitudes and thoughts on that, there probably is not really a better friend and this may be debatable by some people, but I feel we don't really have a better friend as it relates to Federal Government that in all the way of their impact trickles down to even the small business people in southwest Minnesota, than the Small Business Administration.

There are fallacies within every area of the U.S. Government, but overall the SBA has the programs, they have the people, they have the expertise that really can help us. And, I, for one, and many of the business people in this community are concerned about the proposed cuts in the SBA's budget. I guess my request to you is: Give that a tremendous amount of consideration on your votes in the future on what happens with the SBA.

We have to balance the Federal deficit, there is no question about that. The SBA is one of the few lifelines that I think can still be a real direct benefit to rural Minnesota, and specifically our community.

We have tried to streamline and redevelop our economic development structure. We now have an Economic Development Commission that works within our city. Our city has used diversity within their staffing and structure that has brought in economic development specialists. We have taken existing committees and existing groups in Marshall that have been involved with economic development, and we have put these together in a new format that I think

has streamlined our particular community and given us the opportunity to look for some new business.

We are right now in the process of talking with four to five different companies, at various stages of interest as those companies look at Marshall, about some possible new jobs. We do carry a significant responsibility. We realize that, as our farmers and some of those farmers do go out of business, they are looking to relocate, not to Twin Cities, not to Arizona, they want to stay where their family and friends are, and where they have been for the last 100 years. Part of our responsibility is trying to create the job base so that those people can make those transitions on a comfortable level.

It is a tough responsibility to carry for a community. It is a tough one for a chamber of commerce. They look to us to take the lead in that. A lot of companies aren't busting our doors down in southwest Minnesota to open up job opportunities here. We have to be as creative, and I guess as aggressive, as possible; probably more so than we have ever been before, to look at these types of opportunities and, hopefully, put together economic packages to bring the jobs here.

One of the things that, as a chamber, we have probably been more involved with in the last 24 months than we have probably been in the last 24 years, as our Chamber of Commerce is concerned, and that is political communications, insofar as going to and making political statements, issues, testifying before hearings such as yours today. Chambers of commerce and the business people that make up those particular chambers, need to be made more aware of what are the legislative issues as it relates to Federal and as it relates to State. We have tried hard, as best we can, to communicate where are the issues, what are the issues that are going to be affecting us, and working with hearings such as today, so the people have the opportunity to express their opinions and at the same time receive some information back.

A couple programs that we have had great success with: One is a brand new one that we are just starting, in looking at, really where does the growth for communities come from, if someone expects a Control Data or an IBM to move into Marshall, MN, they could be waiting a long time. But, looking at really where the growth potential for our communities have come from for the last 50 years, there are probably growth opportunities right from within our own communities. Many of our industries, many of our businesses, have started in their homes.

We are trying to address this. We have put together a brand new committee in our Chamber of Commerce, called the "Home Based Business Committee," to try to work with businesses who are in their homes, who would like to expand from their home situation into a Main Street storefront business, but maybe their particular service would better serve the community, if they would stay in their home. We are trying to work with those types of businesses, counsel them, work with them, identify them, and give them the service and expertise that they may need.

These are just a few of the types of programs. The last one, I guess, that really reaches down to the personal level, and that is a program called "A Rural Business Support Team" which we have

put together in the last 6 months. It is directly related to a counseling service, an attitude boosting, cooperative effort, by the business people to the business people from the business people. We meet on a bi-weekly basis, it is an opportunity for business people to get together, talk about their common problems, discuss avenues and ways to make those problems change. A lot of times they find out it is sharing of information, it is just a changing, specifically, of attitudes, and it is this type of thing, I think, that is business people working together. And, so many times, we are so spread out, that even in small communities we don't take the time to cooperate and communicate as we need to and now the times and economics are forcing us, in many cases, to work together. And, I think these types of things are long, long overdue.

It is a program that is working for us. We are working with some financial institutions right now for some grants to help us continue these programs, and I guess those are just a few of the things that are in a positive way as it relates to what we are trying to do in Marshall, MN. We don't pretend to say that what we're going to do is going to make a landslide difference to the world, but if we can, in our efforts, help support, lend assistance to, or provide any type of related security to any of our small business people, and that is really all that we have here, which includes our farmers, then that's what we need to be here for, and that's what we need to redirect our efforts to.

We need assistance; we need ideas; we need more communications like we're having today; we need the funding contingent for the SBA; and these are just some of the types of things that communities need to do. Too many communities are still standing still, looking for somebody from outside to come in and bail them out. Now, we have to start taking a look on the inside to see what we can do to help one another, and start an internal process rather than waiting for the external process to come in and answer our questions for us.

We have tough times in rural America, probably as tough as we have seen since the Great Depression. Hopefully, with the efforts of the people, the efforts of our State legislature, and, of course, the efforts of the committees—you sit on the Agriculture and Small Business Committees and so forth—I think we can weather the storm. It is not an easy one, it is not a pretty one, but it is one that I think is mandatory that we get together and try to take some common paths.

Thank you.

Mr. HATCHER. Thank you.

The next and last witness is Steve Raguse.

TESTIMONY OF STEVE RAGUSE, FARMER, WHEATON, MN

Mr. RAGUSE. Steve Raguse is my name. I'm a farmer from Wheaton, MN, and as you all know, I'm the last man on the last panel, and that man looks like he's on his last cassette, and you guys are waiting for the last plane, so let's get on with it. [Laughter.]

I'll tell you what, I'm a farmer. I farm 400 acres, and have a wife and three kids under 4 years old, and I have had the best year I

have ever had. I'll tell you how I did it, and I'll go on to tell you about a specialty project that we're working on.

We have a 400-acre farm. We raise wheat and soybeans. In 1982, 4 years ago, I sat down with my wife, and made a self-analysis of our assets. We have farmland, and we have time. We raise wheat and soybeans. What can you do with wheat and soybeans? You can raise a higher quality crop, sell it for seed. We started raising seed 4 years ago. We have 50 cents to \$1.50 per bushel over the best market price, which this year happens to be the Federal Government.

I'll have you know that a year ago in November, seeing that the bank had cut our credit with a \$45,000 short-term operating loan, foreclosure was imminent, auction sale probable, we went home this last July and paid off that \$45,000, and this year, with the sale of our seed, we will not have to borrow any operating money for 1986.

It can be done. But, you have to sit down, do a self-analysis of your assets and go from there. If it means change, change. Do it now. It's 1986 now, we started in 1982, and we're half-way out of the woods.

The special project that we are working on, is going and processing specialty agriculture crops, and what we did—I told you we have farmland and we have time to devote to a specialty crop during the months of May through July—we analyzed our soil. Our soil is medium to high pH, which is excellent for annual and most perennial vegetables. We consulted the University of Minnesota for a recommendation. We used our Agriculture Extension Service. We made an assessment of potential markets. I consulted a college acquaintance of mine, who is the produce purchasing agent for a major food chain in Minnesota, he gave us the fresh market best sellers, he gave us the processed frozen best seller, and he gave us the current competition, which happens to be produce from California.

The vegetable that fit into our operation was asparagus. It's a perennial vegetable with a 15- to 20-year productive life, with yields up to 2,200 pounds per acre. It grows well in high pH soil, it fits our timeframe of the time we have to spend on it, in May to July, and best of all, people like to buy it, at prices averaging \$1 per pound.

In 1983, we started the asparagus nursery. The University recommended that if our goal was to have a 2-acre food plot, that we raise a 2-acre nursery to generate a 2-acre productive asparagus bed. That would be about 20,000 plants. As things turned out, our seed had terrific germination and I think it was the help of the Man Almighty Above, our nursery produced 200,000 plants.

Today we have transplanted, last summer, 15 acres of permanent asparagus beds. And, we had retail sales of 50,000 plants to defray the expenses. What we did, we used some creative thinking, and we got the crop, the cash flow, the 50,000 plants we sold averaged 20 cents per plant.

When we go into marketing the asparagus vegetable, our 2-acre plot has now increased 7-fold into 15 acres, which would lead us to believe that the fresh market for the vegetable could be saturated. The best alternative that we found is to process and freeze. A vege-

table processing plant would process and freeze asparagus, which would have a retail price today, if you go into the grocery store, check it out, averaging 28 cents per ounce, or \$4.48 per pound. You can see what's happening here.

Our processing plant would be busy in May to July with freezing asparagus, and it would be flexible enough to process other vegetable varieties. Now I'm opening a new market for other farmers in the area who have time—who have farmland—and who want to spend more time on that farmland for a profit. Several farmers, in groups, wanting to grow specialty crops on a cottage-type industry basis, and they're coming to me and they want to buy our processing and our marketing services.

I don't have all the technology and the information available to me in setting up a processing plant, so we have put an evaluation into the Science and Technology Research Center that Dr. Surdy heads here, and hopefully he and his team of 20-23 people, thereabout?

Dr. SURDY. Somewhere around there.

Mr. RAGUSE. OK. They will go over the project, and they'll see how feasible it will be for Minnesota, for my area, and maybe help me with a business plan, or give me some ideas so I can go after the marketing, and if there is some possible funding available, maybe direct me to there so I can prove to these people that it is a worthwhile project.

The point of the whole thing is, I started in 1982. A lot of people are going to have to start in 1986. A lot of people have gotten themselves into their predicament. Some people have gotten there by consequence. It is a time for change. Technology, in the world, they say doubles every two years. Every person should learn a new trade or a new knowledge every few years, so they can be a little flexible. The person that has been in the same rut that he has been in for 20 years, he's digging himself a deeper furrow.

Get out of it, make the change, and go for it.

You can see from what I've done here, we went from a 2-acre nursery to a 15-acre plot, plus we sold \$10,000-\$12,500 worth of plants. I did most of the work myself, I had a few backaches, but it paid off. We owe the bank zero, in short-term loans; and we will not have to borrow any operating for a 400-acre wheat and soybean farm this year.

So, it can be done. What you need, is you need creative and original thinking. It was hard to do. It was harder than heck for me to do last November when the bank said, no more money. I asked for \$100 to run some ads in the paper to sell machinery, denied.

I applied to FHA for a guaranteed operating loan, denied; reapplied, denied; reapplied—the bank says, well, you asked for \$28,000, I think we can give you \$11,000, I think this one's going to go. You know when that was? One week after we swathed down the wheat. I made it through that. And, so did the man here that was here earlier, with the Fulda Bank foreclosing on him. You can make it, but you have to use your head, and you have to go after new ideas and you have to work.

Thank you.

Mr. HATCHER. Well, that's a pretty good note to end on. We've got a little optimism here, that's great.

Vin, do you have any questions?

Mr. WEBER. No, Mr. Chairman; because if I talk, you are going to miss your plane, and then I won't be welcomed back in your subcommittee any more. [Laughter.]

I do want to say that we tried specifically to communicate a couple of different things in the panels. The earlier panels were meant to emphasize that we really do have the deepest economic crisis that we have ever faced, certainly in my lifetime in this part of the country.

But, this final panel is particularly important to me because I wanted to also point out that even though we are in dark times, there is a lot of creative thinking going on, and as I put it, we're not going to dry up and blow away here in rural America. It is people like this that are going to save us.

Thank you for coming to southwest Minnesota, and thank all of you on the panel and those of you that have attended here today, too.

[Applause.]

Mr. RAY. Mr. Chairman, and ladies and gentlemen, thank you for letting us come here. It is my first trip to Minnesota, and it certainly does enlighten me to the concerns that you have here, and my colleagues, Mr. Hatcher and Mr. Weber, are very much interested in all of the things that you have said, particularly on your optimism there and the success you have had. It will not be that easy for everybody but the opportunities are there, and we, in the Congress, are going to try to focus the best we can on the concerns and do what we can to alleviate as many of the problems that we see in America, particularly in this area, as we can.

Thank you.

Mr. HATCHER. You just wish he had been around in 1949 to keep you from going out of business. [Laughter.]

We enjoyed meeting you. Thank you again. Thank you.

[Applause.]

[Whereupon, at 3:25 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

APPENDIX

MISCELLANEOUS STATEMENTS PERTAINING TO RURAL ECONOMY

4/11/86

Small business Committee Panel
April 11, 1986
Southwest State University
Marshall, MN 56258

Our small businesses, farmers, and independently employed people are not prospering, yet at the end of fiscal year 1985, the Pentagon had accumulated \$243.4 billion of unexpended funds, \$51.5 billion of which were unobligated funds (not yet committed to any contract.) On top of this staggering figure, \$320 billion is in the budget request for the current year.

Our national security includes more than just military over-preparedness for war outside our borders. In the past you have shown your readiness to vote for our present military buildup, yet you voice support for our desperate small business and farm economy here in your home district. This is a contradiction of loyalties.

Half of our Federal tax dollars leave this district never to return. The Pentagon is robbing this district to protect run-away corporations overseas. To be truly helpful here in your home district, reconsider your priorities. Divert future military funding into civilian projects which would stimulate our rural economy. Also support study and planning projects for converting our economy back to a civilian industrial base.

Our nation is like Company US, competing with other opposing Companies. In the intense competition, Company US in fear of leaks of research to the other Companies, starts to build a security force around their Company. The other Companies do likewise. Soon Company US is diverting more and more research into more effective security methods, rather than into the products they were supposed to be producing. More and more of the Company's resources were being channeled into the protection around the plant, until finally the plant ceased to produce anything except its own "security". How long could this business enterprise survive under these conditions? Small business people and farmers know the answer.

Respectfully submitted,

Judy Plank

Judy Plank
322 Timberlane Dr.
Marshall, MN 56258

Betty L. McNulty
309 Park Lane
Redwood Falls, Minnesota 56283

April 2, 1986

The Honorable David Durenberger
United States Senate
353 Russell Office Building
Washington, D.C. 20510

Dear Senator Durenberger:

Mark Lofthus, Executive Director of the Countryside Council, asked me to contact your Legislative Assistant Bonnie McCarvel, regarding testifying at your Senate Subcommittee on Intergovernmental Relations hearing on April 3, 1986.

I agreed to testify and asked that Neil Ruddy, Redwood Falls City Administrator, also be allowed to testify. Neil prepared the answers to most of the questions in the material that Bonnie sent, farm land values, reduced values for property tax assessments, property tax delinquencies, general revenue sharing, tax-exempt bonds, etc.

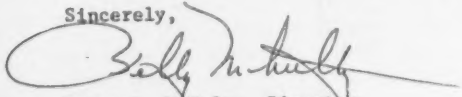
Because of the short notice, it is difficult to document my testimony. Furthermore, even though I am a Director of the Countryside Council, I cannot speak on their behalf because the Board of Directors has not had time to meet, discuss the issues and formulate a position.

Therefore, my testimony will be limited to my observations on the effects of the current farm crisis on businesses in Redwood Falls, comments on the factors that are currently impacting those businesses and comments on your proposals on Targeted Fiscal Assistance (TFA) and tax-exempt bonds. See attached.

I am the Director of Economic Development in Redwood Falls and a certified Small Business Administration (SBA) ACE counselor (SCORE/ACE). I have counseled with approximately 35 troubled businesses in the past year. There is reason to believe that 30 of them will survive and, of those, about ten of them have expansion possibilities that will add new jobs in this area. Most of my time is spent in recruiting new industries to create much needed family supporting jobs.

Thank you for the opportunity of testifying at the hearing.

Sincerely,



Betty L. McNulty, Director
Economic Development

Enclosures

Statement to Senate Subcommittee
on Intergovernmental Relations
Senator David Durenberger, Chairman
Mankato, Minnesota - April 3, 1986

Mr. Chairman: Local communities in the rural sector of the United States need both revenue sharing and tax-exempt bonds in order to provide essential services to their citizens during a period marked by limited and declining resources. The smaller rural cities can best be served by continuing the existing revenue sharing program and tax-exempt bonding authority.

There is no argument in the need to reduce the deficit. However, deficit reduction does have a price, and the price apparently is to be paid by an already overburdened taxpayer. The communities in the rural areas are facing a rapid reduction in the numbers of people who are now able and will be able to pay taxes in the future.

What is happening to the businesses and industries in the small cities serving their citizens as well as the farm families in the surrounding countryside?

It is far more than just the farm crisis. Eliminating the very tools, revenue sharing, tax-exempt bonds, tax increment financing, Small Business Administration guaranteed loans and programs that enable cities to:

1. Deliver important public services such as highways and bridges, schools and hospitals, health care for the poor and elderly, education and job training for the disadvantaged, cleaner air and water, and public housing - to name just a few.
2. Fund economic development efforts, as revenue sharing is doing in Redwood Falls, to retain existing businesses and to attract new businesses and industries to create family supporting jobs.
3. Provide vital public services - police, fire, sanitation, public health and child protection and care.
4. Finance infrastructure development at the state and local levels, essential to continuing economic development, the retention of existing jobs and the creation of new jobs.

is unconscionable! Many of the rural cities are just beginning to use some of these tools, particularly in economic development. Off-farm income is essential to many farmers and may make the difference in their ability to keep their farms. Many farmers have told us that they do not want to be retrained for jobs that require them to move from the rural area. The alternative is to provide them with family supporting jobs or supplemental income in their neighboring towns. They are very productive, desirable workers and as a labor force are attractive to industries looking for an area in which to build.

If Redwood Falls, Minnesota, population 5,200, is an example of what other rural cities are experiencing, and it probably is, the following is what we have had to contend with in the past 18 months:

1. Farm families: reduced income or loss of income. Result: limited or non-existent purchasing power.

2. Small Businesses: reduced sales of goods and services. Result: layoffs and closed businesses.
3. Major manufacturer, largest employer, 400 jobs at maximum capacity, affected by industry-wide negative factors - off-shore competition, increasing costs. Result: massive layoffs, shut-downs, reduction in total jobs. The manufacturer has adjusted accordingly and is back into production and has rehired. However, they provide large numbers of jobs to farm families and their problems over the past year have added to the farm crisis. Good paying jobs and benefits lost, the manufacturer a victim of circumstances beyond local control.
4. Refinancing of business loans and indebtedness virtually impossible because of the banking situation resulting from the farm crisis, not necessarily the fault of the banks - they are caught in the same squeeze as is virtually everyone else. There are no interest buy-down for small businesses!
5. Inflexibility of the various private and public systems in responding quickly enough to sudden business and farm crisis situations.
6. Lack of venture and risk capital to finance startup businesses and the expansion of businesses and industries.
7. Rules, regulations and excessive paperwork involved, as well as the length of time it takes to access available loan and grant programs.
8. Uncertainty of local government aid (LGA) to cities because of the State budget crisis. As of this writing, the State Legislature is in special session to resolve the budget issue. No LGA funds could result in cities having to raise taxes 30 to 50 percent! Other states are probably experiencing similar budgeting problems.
9. Present State laws that limit or prohibit local taxing authority.

The rural communities seemingly are being hit from all sides. The farm situation is the major crisis, as the underlying economic base.

But national and international factors, beyond which there is little local control or influence, are also contributing to the decline in rural business and industry. Thus, reducing the tax base, purchasing power and the ability of local communities to generate needed resources to support public services and to generate new jobs. It is a vicious circle of circumstances.

TARGETED FISCAL ASSISTANCE: The proposed Targeted Fiscal Assistance (TFA) is probably better than nothing. However, the interstate and intrastate formulas will penalize those states and cities within the states that have above average fiscal capacity today.

The factors mentioned above resulting in a reduced tax base, could conceivably radically alter fiscal capacity in a very short period of time. It is possible that fiscal capacity is above average because those cities and states have used revenue sharing and other Federal programs effectively in national, State and local governmental partnerships to provide needed public services.

Redwood Falls would certainly suffer. We are at the maximum levies and by State law cannot increase taxes. We have maintained and improved public services and infrastructure because of sound local fiscal and budgetary policies and careful and appropriate use of Federal, State and local monies in our projects. The reduced tax base because of the farm crisis and other negative economic factors precludes our ability to raise revenues to replace general revenue sharing funds. Result: fewer resources, greater needs, below average fiscal capacity, productive and responsible management of past resources down the drain!

It would seem to make sense to keep strong cities strong. If revenue sharing and other governmental partnerships have enabled cities to maintain an above average fiscal capacity they, in fact, can continue to contribute to the economic strength of the regional area and the State. They are in a better position to create new jobs and add to the tax base and economic base than those cities which have not done as well. There is a time factor and urgency in finding alternatives to the farm crisis and resulting business crisis in rural cities. The cities that have maintained their infrastructure and public services and are already involved in economic development efforts can attract new businesses and the needed family supporting jobs.

TAX-EXEMPT BONDS: I am in absolute agreement with your opening' statement before the Senate Finance Committee, March 4, 1986. I think that The Durenberger Alternative is well thought-out, reasonable, workable and fiscally sound!

CITY OF REDWOOD FALLS

333 WASHINGTON STREET • P.O. BOX 10 • REDWOOD FALLS MINNESOTA 56283-0010
Telephone 507 637-5755

STATEMENT TO SENATE SUBCOMMITTEE
ON INTERGOVERNMENTAL RELATIONS
SENATOR DAVID DURENBERGER, MN
MANKATO, MN
APRIL 3, 1986

BY: Neil Ruddy, City Administrator
City of Redwood Falls, Minnesota

The City of Redwood Falls depends on successful agricultural production for its economic well-being and until the last few years we have experienced a steady population growth of approximately one percent (1%) per year. Recently, however, inadequate commodity prices have resulted in severe cash flow problems for farmers which have in turn affected the City's business community. The problems are compounded by declining real estate values.

Redwood County has reduced the 1986 estimated market value of farm land approximately 35% with the average value falling from \$1,978 per acre to \$1,300 per acre. This figure is based on a study of 18 sales which occurred between October 1, 1984 and September 30, 1985. From recent discussions with farmers and realtors, I have learned that the current cash value of agricultural land is between \$800 and \$900 per acre, which represents another decrease of 35%.

The value of non farm real estate has also decreased, although not as dramatically. The City of Redwood Falls has reduced the 1986 estimated market value of non farm residential property 10% and although commercial/industrial values have not been reduced for 1986, recent sales indicate that such properties are equally affected.

The declining values do not affect local government property tax levies as much as the absence of new development. Most local governments have tried to delay unessential expenditures and hold the line on levies for day to day operations. This would merely result in a higher mill rate if all values were declining uniformly.

Local levies, however, are also used to raise the money to pay principal and interest on general obligation bonds which are the primary source of capital for infrastructure development. The City of Redwood Falls has added substantial levies in recent years for construction of a fire station and renovation of a swimming pool.

We also face the prospect of having to absorb the debt service currently being paid by special assessments against specific properties because two of our major residential subdividers are among the largest owners of tax delinquent property.

In one case, 30 improved lots of a 39 lot subdivision are delinquent in the amount of \$16,300, and in the other, 6 improved lots of a 7 lot subdivision are delinquent in the amount of \$5,200. Our overall delinquency rate is 96.4% compared with an average rate of 99.4% over the previous 4 years which equals total lost revenues of \$28,300 for 1985.

Since many local governments in Minnesota are subject to a legislated limitation on the increase in their local levies for day to day operations, they are between the rock of declining values and stagnant development on the one hand and the hard place of increasing delinquencies on the other.

Revenue sharing has provided Redwood Falls with money for a number of expenditures that might not have been made otherwise. Since 1969, the funds have been used to help purchase a fire truck (\$30,000), to replace obsolete fire department breathing apparatus (\$13,000), to repair storm sewer systems in several chronic problem areas (\$25,000), to provide the Chamber of Commerce with funds for economic development activities (\$66,000) and to help pay for a new city hall (\$250,000). In recent years our annual police car replacements have come from revenue sharing. The loss of revenue sharing and the decrease of property tax base is a devastating combination, especially when it is occurring in conjunction with the severe restrictions on municipal tax exempt borrowing contained in House Resolution 3838.

Unlike the larger metropolitan areas which can depend on the private sector to provide services, Redwood Falls has had to develop a full range of traditional services, as well as an electric utility and a hospital because no one else was there to do it. We are concerned that the 10 and 5 percent use and benefit test will prevent us from developing utility systems for industrial and residential expansion. We are also concerned about the arbitrary exclusion of certain activities from tax exempt status, especially since all of the multi-family rental housing developed in the last five years (60 units in three separate projects) has been aided by tax increment financing bonds.

The City of Redwood Falls endorses the compromise concept contained in S.2166, Senator Durenberger's bill, although we would prefer the complete elimination of volume caps on IDB's. We are also pleased to see that there is apparent agreement to abolish the retroactivity of the restrictive changes in H.R. 3838. We do not think that the effect of Senator Packwood's recent pronouncement, on the national bond market, needs to be repeated.

Finally, we applaud Senator Durenberger's alternative suggestion for targeted revenue sharing even though Redwood Falls has traditionally had high per capita incomes and property valuations and in all probability, would not be an entitlement area under the alternative proposal.